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D 8523A

THE GULF
No sudden moves to the ballot box
Page 22

World News

Aoun's refuge may cause diplomatic dilemma

General Michel Aoun's decision to flee to the French ambassador's residence in Beirut after his violent eviction from his headquarters at Baabda on Saturday has plunged France, Lebanon and possibly Syria into a potentially embarrassing diplomatic dilemma. Page 24

Blow to apartheid
For the first time in history, white South Africa will today open all its public swimming pools, libraries and parks to blacks. Page 24

Backing for Zhao
Chinese army officers disillusioned by last year's Peking massacre and its aftermath have formed a secret group aimed at reinstating disgraced former Communist party chief Zhao Ziyang. Page 8

Rwanda initiative
Belgium, the former colonial power in Rwanda, announced a diplomatic initiative to end fighting there between government troops and rebels.

Threat to Kohl
Chancellor Helmut Kohl will face a damaging personal and political blow if Mr Wolfgang Schäuble, the German interior minister, fails to make a quick recovery after Friday's assassination attempt.

Balloon accident
A hot air balloon hit a high-voltage cable near Berne, Switzerland, and exploded, killing one of the passengers and injuring the pilot and two others.

Ruling hits Bhutto
Benazir Bhutto's political star, brightening in recent days, dimmed again when a court declared Pakistan's president acted legally in sacking her government. Page 42

Airliner catches fire
A Pegasus Airways Boeing 737 with 128 passengers on board caught fire while refuelling at Istanbul but there were no injuries. It was en route from Izmir to Marseilles.

Famine warning
Somalia appealed to donors to resume food supplies to Ethiopian refugees, warning that tens of thousands face starvation after UN aid was stopped in August.

Cabinet 'affair'
Brazilian Justice Minister Bernardo Cabral, 58, resigned after newspaper reports that he was having an affair with Economy Minister Zelia Cardoso de Mello, 37. The two would neither confirm nor deny the reports. Page 4

Soviet train crash
A passenger train ran into the back of a cargo train about 60 miles north of Moscow, overturning railcars and killing one person. Twelve others were hurt.

Record damages
Dennis Paboojian, a Californian badly injured when a light aircraft crashed three years ago, has been awarded record damages of $31m.

Le Duc Tho dies
Le Duc Tho, the hardline Vietnamese revolutionary who conducted Paris peace talks with then US Secretary of State Henry Kissinger, has died aged 79. Obituary, Page 8

Music hath charms
South Korean musicians received a warm welcome when they arrived in the North Korean capital of Pyongyang to take part in a concert for reunification.

Irish golfers win
Ireland's golfers defeated England at St Andrews to win the Dunhill Cup for the second time in three years.

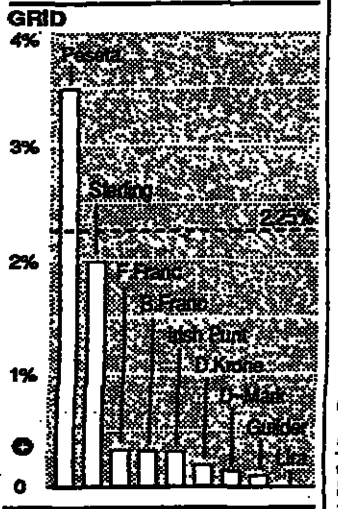
Business Summary

Troubled Suez group picks new chairman

Compagnie Financière de Suez, French banking, insurance and industrial conglomerate, has settled a damaging succession crisis with the nomination of Gérard Worms as chairman. The appointment puts an end to weeks of wrangling over who should succeed Renaud de la Genière, at a time when, with its share price falling by a third this year, Suez's rapid expansion over the last two years was beginning to look indigestible. Page 25; Analysis, Page 27

EUROPEAN Monetary System: Sterling – allowed a 6 per cent band of movement – began its first week as a full member of the system 2.94 per cent above its central rate against the weakest placed Italian lira, but had slipped to 1.98 per cent by Friday. It was also below DM3.00 at the end of the week, failing to fulfil some bullish predictions, but appeared to have found a firm base on technical factors. Occasional Bank of England intervention to steady the rate was not on a large scale. Currencies, Page 37; Editorial comment, Page 22; Long, hard road to wage restraint, Page 23

EMS October 12, 1990



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

CASINO, acquisitive French supermarket and food chain, swung into a FFr152.8m ($30m) net loss in the first half of the year. Page 27

EUROPEAN Airbus dispute over who should pay $300m costs incurred by the consortium because of a four-month engineering strike at British Aerospace in UK appears set to go to arbitration. Page 24

TRADE ministers from the EC, the US, Japan and Canada failed to reach any significant agreements in two days of talks. Page 4

URUGUAY has secured agreement in principle with its leading creditor banks over reducing the burden of its $7bn foreign debt. Page 4

EASTMAN KODAK has been ordered by a US judge to pay Polaroid $909.5m, the largest ever award in a patent-infringement case but less than expected. Page 25

WORLD-WIDE Insurance Group, which is launched today, brings together seven medium-sized insurance brokers to create a new European network. Page 25

POLAND has picked the Paris stock exchange to help it create a new stock market in Warsaw. Page 27

Israel shuns UN inquiry into Arab killings

By Judy Maltz in Jerusalem, Tony Walker in Cairo and Peter Riddell in Washington

THE ISRAELI cabinet voted unanimously yesterday not to co-operate with a United Nations delegation appointed at the weekend to investigate the killing by police of 21 Arabs in Jerusalem last week.

It will, however, allow the delegation to visit the country. The cabinet rejected a more extreme proposal by Mr Ariel Sharon, the hardline Housing Minister, that would have denied the mission entrance into Israel.

The decision is nonetheless likely to create tension between Israel and the US, its closest ally, which supported a UN security council resolution condemning Israel and commissioning the probe.

In other developments linked to the Gulf yesterday:

● Britain issued *one of the clearest threats yet that force would be used if necessary to drive Iraq out of Kuwait.*

● Iraq said that it would never withdraw from Kuwait, denying a Soviet news report it might be content with just an oilfield and islands controlling its access to the Gulf.

● Iran and Iraq resumed direct diplomatic ties after reopening embassies in each other's capital.

In announcing the rejection of the resolution and its refusal to accept the UN investigating *mission, Mr David Levy, Foreign Minister* also emphasised Israel's anger with the United States.

"As much as our relations with the United States are very important, there is no ignoring the regrettable fact the US administration made a mistake – the US is held captive by the very coalition it formed against Saddam Hussein," he said.

The US yesterday gave a cautious initial reaction to the Israeli government's statement. Vice president Dan Quayle reiterated US support *for the UN inquiry, but sought* to avoid confrontation.

Mr Douglas Hurd, Britain's Foreign Secretary, who arrives for talks in Jerusalem today, went to some lengths to deny there was any linkage between the Gulf crisis and the Palestine question. But speaking in Cairo before Israel announced its decision, he nevertheless indicated that a resolution of the Arab-Israel would be given top priority once Iraq withdrew from Kuwait.

"There will never be an easy time to tackle the Palestinian *problem," Mr Hurd said.* "That it must be tackled has been underlined once again by the cruel events in Jerusalem."

He said it would be a "mistake" for Israel to refuse to co-operate with the UN mission, which will comprise three aides to Mr Javier Perez de Cuellar, the Secretary General.

Proposed US budget solution faces series of hurdles

By Peter Riddell, US Editor, in Washington

A POSSIBLE solution to the US budget crisis has been proposed by the Senate Finance Committee with bipartisan support and the approval of the White House, although it faces several major hurdles this week.

The committee approved a revised budget package at the weekend which neither increases top income tax rates nor cuts capital gains tax, though it raises taxes on the better-off by limiting allowable deductions.

Overall, the package is a modification of the bipartisan agreement rejected by the House of Representatives 10 days ago.

Mr John Sununu, the White House chief of staff, said yesterday the Senate committee plan was "a much better reference point" for budget reconciliation than the House Democrats' package which proposes large tax increases on the better-off.

Senator Lloyd Bentsen, the Democratic chairman of the Senate committee, had wanted to raise the top marginal income tax rate from 28 to 33 per cent.

But he had to compromise because of the narrow 11-to-nine party balance in the committee and because two Democrats opposed a tax increase.

To secure the necessary backing of the Republican leadership, Senator Bentsen and Senator George Mitchell, the Democratic majority leader, had to make a commitment to defend the package as it goes through the floor of the Senate in the middle of the week.

The House, with its larger Democratic majority than the Senate, is expected to pass its tax-raising package some time tomorrow or Wednesday. The two versions will then be discussed in a joint conference in which the White House will participate.

The conference could take some time and Mr Sununu admitted it might not be completed by midnight on Friday when the US government again runs out of money. He said the chances were "probably relatively high" that there will be another temporary shutdown of the government next weekend.

The administration will be seeking to keep the final package as close as possible to the

Continued on Page 24

Tax fairness issue takes centre state, Page 3

Christian Democrats win E German state elections

By David Goodhart in Bonn and Leslie Colitt in Berlin

MR HELMUT Kohl's Christian Democrats (CDU) confirmed their political domination of the former East Germany with comfortable victories in elections in four out of the five resurrected Laënder (states) last night.

The CDU's sister party, the Bavarian Christian Social Union, also held onto its overall majority in state elections in Bavaria in spite of speculation that the death of former Bavarian leader, Mr Franz Josef Strauss, would drain support away, possibly to the far right.

The results provide further grounds for CDU optimism that the current centre-right coalition in west Germany will win a comfortable victory in the December 2 all-German elections.

In the state elections in east Germany the first estimates indicated that overall the CDU had won 45 per cent, the Social Democrats (SPD) 24 per cent, the PDS (the former Communist Party) 8 per cent, the Free Democrats (FDP) 9 per cent, and the Greens/Bundnis 90 alliance 7 per cent. The turnout *was low, as expected, at about* 60 per cent.

The CDU polled 40 per cent in the East German national election last March and the SPD polled 21 per cent so both parties seem to have benefited from the continuing erosion of the PDS vote which was 16 per cent in March.

The FDP and the Greens/Bundnis 90 have also established themselves as significant minor parties.

A significant drop in support for the PDS, the former Communist Party, was described as "not unexpected" by Mr Gregor Gysi, the head of the party.

Mr Konrad Weiss, a prominent member of Coalition 90, the party which helped overthrow the Communist regime last November, noted that east *Germans now realised* the PDS was the party of the Stasi, the former secret police, and that it was responsible for the country's economic misery.

Nuns from Klosters Mallersdorf in lower Bavaria head for their local polling station, to vote in the state election, past posters carrying the message: Vote Bavarian, vote CSU

The CDU won a crushing overall majority in Saxony, the most populous and industrialised state, winning 56 per cent of the votes. The SPD, in second place, polled only 18 per cent.

A beaming Mr Kurt Biedenkopf, the new CDU prime minister, said his first task would be to help create new jobs in the face of expected mass unemployment this winter.

The CDU was also the strongest party in Thuringia with 45 per cent, Saxony Anhalt with 40 per cent, and Mecklenburg with 38 per cent. In Thuringia and Saxony Anhalt the CDU will be able to form a government with the FDP, although Mecklenburg may see a "grand coalition" with the SPD.

The SPD had the compensation of being the largest party in Brandenburg. It took 39 per cent of the vote, the CDU 29 per cent, and the PDS 13 per cent. As in Mecklenburg, a grand coalition may emerge.

Mr Manfred Stolpe, SPD, a leading church figure in east Germany, will become minister president. He defeated Mr Peter-Michael Diestel, the former East German interior minister, who suffered from his association with the Stasi.

The SPD had hoped that its poor performance in East Germany in March and in the communal elections in May would be a temporary phenomenon, a result of people voting for the D-Mark and swift unity.

Yesterday's state elections confirm that east Germany is likely to remain markedly more conservative than west Germany for some time to come.

The CDU benefits from being considered the party of economic competence and the SPD suffers from association with socialism. Mr Oskar Lafontaine, the SPD Chancellor candidate, remains far less popular than Chancellor Kohl as the attendances at their respective election meetings during the state election campaigns showed.

UK entry to ERM raises questions in Germany

By David Marsh in Bonn

BRITAIN'S motives in deciding to join the exchange rate mechanism of the European Monetary System are being called into question at the highest levels of the German political and monetary establishments.

Senior political figures as well as top officials at the Bundesbank are expressing deep scepticism about the UK's willingness to play a constructive role in future negotiations on European Monetary Union.

Pointing to Britain's double digit inflation rate, one senior Bundesbank policy-maker, speaking on the understanding that he would not be named, said that "economically, the time (for Britain to join fully the EMS) is not right."

He doubted whether the British government – as well as employers and labour – realise the full implications of the EMS move.

"The question is if it (the government) knows it has lost a piece of manoeuvring room. It will have to accept the discipline of all. I hope they know that," the official said.

Doubts over whether membership of the EMS signals a change in the UK's attitudes towards Europe are being expressed at a wider political level. One top-level politician from the ruling Christian Democrats, who also spoke on the understanding that he would remain anonymous, said he believed Mrs Thatcher agreed to join the EMS so she could "brake" the whole process towards monetary union.

He criticised Mrs Thatcher's attachment to the nation state as opposed to the goal of a more federal structure in Europe, and said he believed she was living in the past.

Continued on Page 24

Motor companies fear EC plan to curb Japanese car imports

By Guy de Jonquières in London and Lucy Kellaway in Brussels

THE EXCLUSIVE dealership system through which most cars are sold in the European Community is being called into question by a dispute in the European Commission over plans for temporary restraints on car imports from Japan.

Some European motor companies fear that the dispute could result in intensified Japanese competition and increased pressure on profits at a time when the EC car market is already weakening.

Brussels wants to replace national restrictions on Japanese car imports in Britain, France, Italy, Portugal and Spain with EC arrangements which would oblige Japan to limit the growth of car shipments for several years.

The Commission has been counting on the exclusive dealership system to enforce the proposed arrangements by preventing large flows of "parallel" *Japanese car imports into* the five restricted EC markets from open ones such as Germany. Its plans, however, have been complicated by internal disagreements over the interpretation of the 1985 block exemption from EC competition rules, which allow car makers to distribute models exclusively through designated dealers.

Brussels faces a dilemma on its policy on parallel imports of Japanese cars. The Commission wants to negotiate a deal to control the growth of Japanese car sales while at the same time encouraging moves to lift trade barriers in the Community. Differences between politicians, car makers and dealers have now emerged. Page 6

The disagreements have been brought to a head by a recent legal case resulting from efforts by Peugeot to limit parallel imports of its cars into France from Belgium, where prices are considerably cheaper.

The case has pitted Sir Leon Brittan, the competition commissioner, against Mr Martin Bangemann, the industry commissioner. Sir Leon wants to encourage "parallel" imports to ensure the motor industry does not use the block exemption to fragment EC national markets and distort competition. However, Mr Bangemann is worried that too liberal an interpretation of the block exemption could make the planned arrangements with Japan unworkable.

If the two commissioners cannot agree, Brussels may need to ask the Council of Ministers to pass a regulation providing for special controls on parallel imports of Japanese cars. But that would risk inflaming further disagreements between EC governments over the planned restraint arrangements and delay a deal with Japan. Some European car makers also fear that even if a special regulation were approved, it would *put them at a disadvantage* against Japanese competitors.

West European car sales down, Page 6

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■ FRIDAY:
Legal Profession: preparing for structural change.

THE MIDDLE EAST

Aid deal for Gulf front line

By Peter Riddell, US Editor, in Washington

THE MAIN industrial countries have resolved their differences about the co-ordination of assistance for the front-line states most affected by the Gulf crisis and an increased amount of emergency relief is expected to flow.

A second meeting of the the US-led Gulf Crisis Financial Co-ordination Group, launched by President George Bush nearly three weeks ago, has just been held in Washington. Participants report that earlier disagreements about how the initiative should be run have been sorted out and there is now general agreement about the size of the problem.

A US official involved said he now believed the money was available to deal with the immediate problems for the rest of this calendar year in the three front-line states – Egypt, Jordan and Turkey.

But there is still a mismatch of needs and commitments for 1991, with some Arab countries reluctant to help Jordan.

These discussions come against the background of increasing complaints in the US about an inadequate financial response from allies, particularly Japan and Germany. Moreover, a New York Times/CBS News poll shows a marked drop in approval of Mr Bush's handling of the crisis – down from 75 per cent to 57 per cent since mid-August.

While the economic blockade of Iraq retains high support from the American public, its backing for the president's decision to send troops to Saudi Arabia has dropped from 75 to 61 per cent in a month.

The Bush administration wants to maximise support for the front-line states, to ensure that they do not collapse economically while sanctions are being applied against Iraq.

However, when the co-ordination group was launched by Mr Bush, Japan and Germany were worried about its direction by the US Treasury.

But reassurances were offered at Friday's meeting which one European participant said dealt with most of the concerns.

Iraq denies willingness to withdraw

IRAQ denied yesterday that it might withdraw from parts of Kuwait, Reuter reports from Baghdad.

"Those disseminating such baseless reports are well known and so are their aims," the Iraqi News Agency said. "Kuwait was and will continue to be Iraqi land for ever."

It did not specify the foreign reports denied but the Soviet news agency Novosti said yesterday that Mr Saddam Hussein, the Iraqi president, had told a Soviet envoy that he might be willing to withdraw from most of Kuwait if he were allowed to keep a disputed oil field and islands which command Iraq's outlet to the Gulf.

Mr Yevgeny Primakov, a member of the Soviet Presidential Council, visited Baghdad on October 6, and left saying that he was more hopeful of a political solution to the crisis.

● Iran and Iraq resumed direct diplomatic ties yesterday after reopening embassies in each other's capital, the Iranian Foreign Ministry said, Reuter reports from Nicosia.

A ministry statement quoted by the Iranian news agency IRNA said the Iraqi chargé d'affaires began his assignment to Tehran yesterday and an Iranian chargé d'affaires would leave for Baghdad shortly.

Two Baghdad women pass by a giant poster of Saddam Hussein

Hurd denies seeking Heath trip

By Ralph Atkins in London and Tony Walker in Cairo

THE PLANNED trip to Iraq by Mr Edward Heath, the former British prime minister, fuelled fresh controversy yesterday when Mr Douglas Hurd, foreign secretary, denied he had asked Mr Heath to go.

Conflicting accounts of who initiated the visit, aimed at seeking the release of sick and dying hostages, added to the confusion about the UK government's attitude to his mission.

Mr Hurd told reporters in Cairo he first heard of the visit on September 29. He had phoned Mr Heath the next day and "neither encouraged nor discouraged him from the expedition".

They discussed what "the practicalities might be if he went", Mr Hurd said, and it became clear that the status of the mission was personal and humanitarian, and not on behalf of the government.

Mr Hurd said he told Mr Heath that "on that basis he would, of course, receive all the courtesies . . . which are due to a former prime minister".

Egypt rounds up murder suspects

By Tony Walker

EGYPT has made a number of arrests in an attempt to track down those responsible for the murder on Friday of its parliamentary speaker, Mr Rifaat al-Mahgoub. Three suspects were arrested yesterday while trying to board a ship at Suez, and three more were detained at Cairo airport.

The authorities claim their investigations are pointing more firmly to foreign involvement. The national Middle East News Agency quoted an Interior Ministry official as saying the killing was carried out by a well-trained team from outside the country.

Official statements over the weekend accused Iraq of involvement, although Baghdad vigorously denied it.

Egypt and Iraq are bitter enemies in the Gulf crisis.

Lebanon looks to life after Aoun

The greatest obstacle to reunification has gone, writes Lara Marlowe

THE violent eviction of General Michel Aoun from the presidential palace at Baabda at the weekend has removed the single greatest obstacle to the reunification of Lebanon and spawned an immediate improvement in confidence within the country.

Even as the bombardments continued on Saturday morning, Beirut's money changers – an accurate barometer of the country's perceived prospects – were trading the dollar for as little as 600 Lebanese pounds, compared to 1,100 on Friday.

The Lebanese pound has been so buoyed by news of Gen Aoun's surrender that the currency recovered in just a few hours the value it had lost since Iraq's invasion of Kuwait in early August.

After 750 days of Gen Aoun's "mutiny" – as Lebanon's President Elias Hrawi's government referred to the general's stay in Baabda – Mr Hrawi and his ministers are now faced with the enormous task of rebuilding the country.

The government was eager to emphasise the role of the Lebanese army and air force in ousting Gen Aoun. But the presence of thousands of Syrian soldiers and hundreds of Syrian tanks in East Beirut yesterday left no doubt that this was above all a Syrian operation. President Hrawi will have to walk a fine line between conserving Lebanese sovereignty under Syrian protection and acting as a mere puppet.

The Syrian army's Katyusha rocket launchers, a few hundredyards from the Lebanese government's temporary seat in West Beirut's Summerland Hotel, nearly drowned the words of Mr Edmond Rizk, Lebanon's minister of justice and information, on Saturday morning.

"The challenge of peace will be greater than the challenge of partition," Mr Rizk said.

The first question – what to do with Gen Aoun – is one that Mr Hrawi and his ministers seem to relish. For the general's internal exile at the French ambassador's residence in Mar Takla provides them with the opportunity of both humiliating the general and antagonising the French, whom they always suspected of supporting Gen Aoun.

The embassy complex has no helicopter pad and all its approaches are guarded by Syrian tanks. Gen Aoun cannot leave without President Hrawi's permission. Some ministers advocate allowing the general and his entourage to go, provided he hands over an estimated $15m (£7.6m) he has deposited in a European bank account. Others insist that Gen Aoun should stand trial in Lebanon.

When the general's fate is decided, the president's agenda will be topped by both a cabinet reshuffle and the establishment of "Greater Beirut", the administration by the central government of all areas within the capital's city limits, something which years of civil war have virtually precluded.

In the cabinet, it is expected that Mr Selim el Hoss will step down as prime minister. Government sources cite alternately his poor health and his candidacy for the position of secretary general of the Arab League as the reason for his expected departure.

Creation of a meaningful Greater Beirut would mean enabling free passage between the Moslem west and Christian east of the city and ensuring provision of basic services such as electricity, water, communications, rubbish collection and – above all – security within city limits. If Mr Hrawi can achieve this, he may win the popularity which has hitherto evaded him.

The costs of reconstruction will be huge. Damage from the civil war has been estimated at more than $10bn.

But the removal of Gen Aoun has significant repercussions for Lebanon's hard-fought balance of powers, both internal and external. Since the Taif accords which preceded President Hrawi's election this year were essentially a Saudi undertaking, the extension of his authority represents a victory for Saudi Arabia.

Many Lebanese also see a clear warning to Iraq in the Syrian assault on Baabda at the weekend. The Syrian deployment in the east of the capital has deprived Iraq of its foothold among Maronite Christians.

But nearly half a million Palestinian refugees live in Lebanon, many of them fervent supporters of Iraqi President Saddam Hussein. Gen Emile Lahoud's Lebanese army is still hopelessly ill equipped to oppose the 10,000-strong Palestinian force in Sidon, let alone drive the Israelis out of southern Lebanon.

But Beirutis most fear a conflict between the Christian Maronite Phalange and the Syrians. It was the Phalange, under Mr Bashir Gemayel, who drove the Syrians out of East Beirut 12 years ago. Mr Samir Geagea, the militia's present leader, has proclaimed his willingness to work with the Hrawi government.

But the Hrawi administration cannot dismantle the militias without Syrian help, and the Syrian troops who came down the Damascus-Beirut highway at the weekend brought Mr Geagea's former rival for the leadership of the Phalange, Mr Elie Hobeika, and his militiamen with them.

Hopes for Kuwaiti democracy

By Victor Mallet in Jeddah

KUWAITI pro-democracy activists believe they have extracted a firm promise from the al-Sabah family, their exiled rulers, to hold elections and restore the national assembly if and when the country is liberated from Iraqi forces.

Some 1,200 Kuwaitis attending a "popular congress" in the Saudi Arabian port of Jeddah are united in their desire to drive out the Iraqis, but there have been arguments behind the scenes about the future government in Kuwait.

The dispute was apparently resolved at a private meeting on Friday night between Sheikh Saad al-Sabah, the prime minister and crown prince, and former speakers of the parliament.

Sheikh Jaber, the emir, dissolved the national assembly four years ago and suspended some articles of the 1962 constitution when MPs attacked the ruling family for corruption after the Souk al-Manakh kerb stock market crash in 1982.

On Saturday, Sheikh Saad urged his critics not to disrupt Kuwaiti unity for the time being, but he also promised – to loud applause – that post-liberation Kuwait would work to consolidate democracy and deepen popular participation under the 1962 constitution.

Opponents of the government, who publicly accept the al-Sabah as hereditary rulers working in conjunction with the assembly, said they were satisfied. "I would like to interpret it optimistically," said Mr Ahmed Saadoun, speaker of the parliament dissolved in 1986. "It's a definite, firm answer that there will be a return to full constitutional legitimacy."

Dr Ahmed Khatib, a nationalist former MP, said the democracy movement's objectives in coming to the Jeddah conference had been achieved.

Members of the Kuwaiti government-in-exile were more cautious in their interpretation of Sheikh Saad's words, and spoke of a future system "based on" the 1962 constitution.

Sheikh Ali Khalifa al-Sabah, the finance minister, said there was nothing new in Saturday's announcement.

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Republics withhold full backing for Gorbachev plan

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev failed at the weekend to win wholehearted support from leaders of the constituent republics of the Soviet Union for his radical economic reform package, which is supposed to be presented to the union parliament today.

The inconclusive result means there could be a further delay in finalising the plan, which is to lay down the strategy for privatising state property, stabilising money supply, liberalising prices, and rapidly switching to a market system.

Four of the 15 republican leaders boycotted the meeting of the president's federation council, called specifically to endorse the programme for transition to a market economy. They were from the three Baltic republics and Georgia, all increasingly set on outright independence.

Mr Boris Yeltsin, the Russian federation president, whose support is critical to the success of the radical 500-day reform plan, was also represented only by his deputy, Mr Ruslan Khazbulatov.

The rest were only prepared to agree to the presentation of "guidelines for the transition to a market-based system", leaving the details to be worked out by the republics.

The vague conclusion means that the Soviet president is still left without a clear mandate for transforming the Soviet economy, and must remain uncertain of the reactions of the 15 Soviet republics if he insists on going ahead with a single plan.

A team of economic advisers, headed by Professor Abel Aganbegyan, was yesterday urgently working on the final reform plan in an effort to accommodate the objections of the republican leaders.

A crucial objection to the reform process is that the Soviet government, and the Russian government, have been allowed to start the process of administered price rises, and the republics are now all demanding some form of "compensation".

The 500-day programme was supposed to freeze any price rises until a drastic austerity programme, combined with wide-scale privatisation of state property, had been brought into effect. Instead, the bureaucracy has been allowed to go ahead with sharp increases in the state purchase prices of grain and meat.

At the same time, enterprises have been shown proposed new prices for all other goods, to take effect next January, causing them to withhold current production from the shops.

Mr Gorbachev is now under attack both by radical reformers, who believe he has compromised too far in allowing the government bureaucracy to dictate the pace of reforms, and by conservatives, who believe that the whole transition to a market means the destruction of socialism.

He won a reprieve against the threat of growing economic chaos on Saturday, when railway workers agreed to call off a strike threatened for today, but he still has to head off a threatened oil workers' strike, scheduled for October 20.

As if to show that he is still in control of the situation, the Soviet leader has been taking urgent measures to impose some sort of discipline at a time of growing economic dislocation, soaring crime, and bitter criticism of his own ruling Communist Party.

A city-wide crackdown on criminals was launched in Moscow on Saturday, resulting in 8,000 arrests, although the great majority appeared to be for petty hooliganism, drunkenness, and offences against the residence and passport laws.

Mr Gorbachev issued two decrees on Thursday and Friday apparently largely to protect Communist Party property, and monuments to party heroes like Vladimir Lenin. He declared all property inviolable, and forbade local authorities from demolishing any more monuments.

They were swiftly followed by a decree by the Council of Ministers to bolster the Minister of the Interior and the KGB, the state security committee, in fighting organised crime.

Tax fairness issue takes centre-stage in US budget debate

By Peter Riddell, US Editor, in Washington

THE US budget crisis has turned into a debate about fairness versus supply-side economics.

As Congressman Richard Gephardt, the Democratic House majority leader, argued two weeks ago at the unveiling of the original (subsequently rejected) budget package, the deal had been delayed by "deep disagreements over values, the role of government and the fairness of our taxes". Republicans argue that a low top income tax rate and lower capital gains rate should help all Americans by raising investment and economic growth and not just the better-off. At present capital gains in the US are taxed as income, though unlike Britain there is no adjustment for inflation.

A cut in capital gains tax rates has become a political totem for conservatives since it featured in President George Bush's first budget in early 1989. Conservative commentators argued that the sharp fall in the stock market a year ago was caused by the blocking of a cut by Senate Democrats. These commentators now maintain that a reduction in gains tax would have such a positive effect that the US economy might avoid recession, as well as generating additional tax revenue over the long-term.

By dropping his "no new taxes" pledge in late June, Mr Bush opened the way not only for indirect tax increases but also for the kind of trade-off between a lower gains tax and higher personal tax rates which landed him in such a political mess last week.

By contrast, the Democrats have placed increasing emphasis on fairness and equity. This is partly a reaction to the tax and income distribution changes of the 1980s which favoured the better-off. Democrats argue that the better-off should pay more of the burden of deficit reduction than ordinary, "middle-class" Americans.

The original budget package provoked anger not only because of specific proposals such as cutting back Medicare health provision for the elderly but also because of the overall distributional impact. The Joint Committee on Taxation has estimated that, while those earning $200,000 (£102,000) and more a year would pay an extra 1.7 per cent, those with incomes between $20,000 and $30,000 would face a 3.3 per cent average increase.

While denying charges of "unfairness", Mr Bush sought to achieve his aims in a politically acceptable way by proposing a cut in capital gains tax to 15 per cent coupled with an increase in the top marginal rate from 28 to 31 per cent. This would in effect level out the so-called bubble created in the 1986 tax reform act under which the wealthiest Americans – married couples jointly earning more than $186,000 a year – pay a 28 per cent marginal rate of federal income tax, while those earning between $78,000 and $186,000 pay a 33 per cent rate. This is because of a formula which ensures that the average, as opposed to the marginal rate, of tax never exceeds 28 per cent.

The White House argued that the 15-31 per cent trade-off would be largely self-financing. But the Joint Committee has estimated that it would cost $19bn over five years and taxpayers with incomes of more than $200,000 a year would have their taxes cut by 6.6 per cent, with virtually no benefits for those earning $30,000 or less.

The Republicans argue that Democratic alternatives such as raising the top marginal rate to 33 per cent with a smaller capital gains cut would substantially increase the tax burden.

The Democrats have produced two alternative plans, both ensuring that the wealthiest pay more relatively than average taxpayers. The House Democratic version would increase the top marginal rate to 33 per cent, alone raising $44bn over five years, and would impose a 10 per cent surtax on those earning over $1m.

The Senate plan, with bipartisan support, does not touch capital gains or tax rates, but affects the better-off in a backdoor way by limiting itemised deductions for those earning more than $100,000. This would raise $29bn over five years and ensure that the overall package is progressive, protecting the poorest and ensuring that the wealthiest pay 3.7 per cent more.

A modified version of the latter package looks the most likely to pass, leaving tax-cutting Republicans dissatisfied and Democrats claiming a slight shift in the US tax code in a more progressive direction. But the basic debate will not be resolved.

Second city faces Athenian problems

By Kerin Hope in Salonica

THE city of Salonica looks serenely out at the northern Aegean, its calm scarcely ruffled by several weeks of strikes and a closely fought local election campaign.

With a population that has grown fourfold in a generation and now totals over 900,000, Greece's prosperous second city faces the same problems as Athens though on a smaller scale: traffic jams, pollution and a lack of green space.

"Salonica is much more liveable than Athens, but people will be moving in from the countryside at a rate of 10,000 a year during the 1990s, so there's no time to lose in addressing the problems," says Professor Dimitris Fatouros, an architect and former rector of Salonica University. A newcomer to politics, he is running for mayor in Sunday's election on a joint socialist-communist ticket.

Air pollution is rarely a problem, for a stiff north wind from Yugoslavia blows fumes and industrial emissions out into the Thermaikos Gulf. But along most of the six-kilometre waterfront, overlooked by apartments, parks and a huge medieval round tower, the sea looks green and smells evil.

More than 200,000 cubic metres of waste pour into Salonica Bay every day, most of it untreated. A 20bn drachma ($130m) sewage disposal scheme, begun a decade ago, is still unfinished. Mr Fatouros says that, if he is elected, installing a biological treatment plant will be his first priority.

Three general elections in the past 15 months have created a mood of apathy among Greek voters over the local elections, while a three-week strike protesting against the Conservative government's new pensions policy effectively curtailed campaigning. The emphasis now is less on party politics than on local candidates' personalities and what they can offer.

The Conservative incumbent, Mr Constantine Kosmopoulos, a wealthy lawyer and former president of a leading soccer club, is running on his party's record. He has the advantage of controlling Greece's first municipal television station, TV-100 founded by his predecessor in the days when the socialist government kept a tight grip on the state run media.

Mr Kosmopoulos is ahead in the opinion polls, but his lead is not big enough to ensure the outright majority needed to win in the first round. If Mr Fatouros manages to attract the minor candidates' votes he could scrape victory in a run-off poll the following Sunday.

Conservatives, however, usually do well in Salonica, whose commercial traditions date from the Byzantine empire when it lay astride the main route from Rome to Constantinople. When the city became part of the modern Greek state just before the First World War, Jewish and Ottoman residents almost outnumbered native Greeks.

There is a feeling among the businessmen of Salonica that they contribute more to the economy than their counterparts in Athens. Although most industry is located around the capital, the Salonica region's textile factories and farm production contribute a high proportion of Greece's export earnings. Its port is one of the country's few profitable public sector enterprises.

"It's like Italy. We're better organised and more productive than the Greeks in the south," says Mr Michael Mystakides, who manages both a family-owned rice mill and an electrical engineering company.

Byzantine monuments are scattered around the city, many of them still under restoration following a severe earthquake 12 years ago. But the city council's plans to make them more accessible to tourists by means of pedestrian routes have fallen a long way behind schedule.

"We're not the city's most popular service," says Mrs Katia Loverdou-Tsigaridas of the Department for Byzantine Antiquities. "We have to excavate a thick layer of ancient remains on almost every construction site in the city centre."

The archaeologists receive grants from the central government, but conservation of the Ottoman-era old town and dozens of architecturally splendid 19th century mansions has to be paid for out of the city's DR10bn budget. But the shortage of school buildings, day care centres for children and sports facilities means there is fierce competition for funds.

The Conservative Government has promised that DR40m will be made available to build a 10-kilometre underground railway line to relieve congestion in the city centre. An ambitious landfill scheme calls for extending the waterfront 130 metres into the sea and building a vast garage and a shopping centre.

That, says Mr Fatouros, "is the sort of unwieldy plan that architects tried in the 1960s and then abandoned because it creates more problems than it solves."

His proposal would be to build an 1,800 metre long tunnel beneath the narrowest section of waterfront in order to get rid of the traffic. He also suggests a plan to encourage shoppers and commuters from the city's eastern residential districts to travel by motor boat to the centre, "like in Venice or Istanbul."

Thatcher gives support to de Klerk's reforms

By Robert Mauthner in London

PRESIDENT F.W. de Klerk of South Africa yesterday obtained firm assurances of support for his political reform programme from Mrs Margaret Thatcher in talks at Chequers, the British prime minister's country residence.

The 90-minute meeting between Mr de Klerk and Mrs Thatcher, their second in six months, was described as "very positive and constructive about the way ahead and the prospects for negotiation" between Pretoria and the country's black leaders.

Mrs Thatcher made it plain to Mr de Klerk, who was due to return to South Africa last night, that she strongly supported his efforts to dismantle apartheid.

She expressed the hope that the South African government would soon open negotiations with black leaders on reforming South African society on non-racial lines.

The two leaders appear to have spent only a short time discussing sanctions against South Africa, which Mr de Klerk would like to see lifted completely and which Mrs Thatcher has always opposed.

A British official said afterwards that sanctions were now regarded as very much a secondary issue and that they did not play a big role in practice.

"Sanctions are withering on the vine," he said.

Mrs Thatcher, who has always maintained that sanctions are counter-productive because they harm the people they are designed to help – the black population – can be expected once again to argue for their abolition at a European Community summit later this month.

Britain broke the united front with its partners earlier this year when it unilaterally eased some sanctions.

Mr de Klerk, who was due to return to South Africa last night, was greeted on arrival in Southampton from Portugal yesterday on board the liner QE2 by two small boats carrying anti-apartheid demonstrators. Other protesters mounted a vigil at the gates of Chequers.

Mr Robert Hughes, Labour MP for Aberdeen North and chairman of the Anti-Apartheid Movement, handed in a letter calling on Mrs Thatcher to persuade Mr De Klerk to stop violence and repression in South Africa. The letter expressed particular concern that the scheduled release of political prisoners in South Africa was taking place much too slowly and claimed that the practice of detention without trial was continuing.

INTERNATIONAL NEWS

Newspaper report claims love affair between cabinet colleagues

Brazilian justice minister resigns

By Simon Fisher in Rio de Janeiro

IN the land of the lambada, an indiscreet *cheek-to-cheek "bolero" dance with the* woman in charge of one of the world's top 10 economies has led to the fall of Mr Bernardo Cabral, Brazil's justice minister.

For months, Brazil had buzzed with speculation over the identity of the secret lover to whom Ms Zelia Cardoso de Mello, the economy minister, alluded when she started wearing a wedding band on her ring finger. But few were prepared for the revelations of cabinet intimacy on the night of her 37th birthday last month, when Ms Cardoso and 58-year-old Mr Cabral, grandfather of three after 35 years of marriage, smooched by moonlight to the strains of "Besame Mucho".

Brazil is hardly prudish and the affair need not have caused the government great political embarrassment, according to secret opinion polls carried out on the *orders of President Fernando* Collor de Mello. Yet the clumsy conduct and importance of the two ministers have ended by compromising both and, with them, the modernisation programme of the Collor administration. Mr Cabral resigned on Saturday, citing strong personal reasons, after news reports that the ministers were having an affair. The ministers neither confirmed nor denied the reports.

Ms Zelia Cardoso is the driving force *behind the shock economic programme* launched when the government took office last March, aimed at ending inflation then running at more than 80 per cent a month.

Ms Cardoso has overseen the dismantling of one of the world's most thorough experiments in economic protectionism, and is in charge of negotiations with creditor banks to reduce Brazil's massive debt.

But inflation was reduced to single monthly figures for just two months and has been climbing steadily since June. The reported love affair has merely added to the crumbling of Ms Cardoso's *credibility*.

The justice minister is the administration's key political fixer, responsible for co-ordinating its shaky support in Congress. When this fell apart at crucial moments, such as over salary policy, a vital element of the anti-inflationary strategy, *Mr Cabral was blamed*.

The appointment of the new justice minister is an indication that the self-styled New Brazil administration has taken a step backwards. He is the 70-year-old Senator Jarbas Passarinho, who participated in the 1964 coup which plunged Brazil into 20 years of military rule.

Cardoso: her credibility has been crumbling

Rio Group backs Bush initiative

PRESIDENTS of Latin America's largest nations have supported President Bush's Initiative for the Americas, aimed at expanding trade and investment in Latin America, writes Joe Mann in Caracas.

They have called for a revamping of the region's two main political and integrationist bodies, the Organisation of American States and the Association for Latin American Co-operation.

In the Declaration of Caracas, issued after a two-day meeting in Caracas, the presidents – who make up a body *called the "Rio Group" – also* ordered studies into a regionally financed "strategic investment fund". This would focus on coping with the economic problems caused by the Gulf crisis.

Ministers determined over trade deadline

By Peter Montagnon, World Trade Editor, in St John's, Newfoundland

TRADE ministers from the European Community, the US, Japan and Canada failed to reach any significant agreements in two days of talks but remained determined to meet the December deadline for completing the Uruguay Round of multilateral trade negotiations.

Agreement on core issues, including reform of trade in agriculture and textiles, must wait until the closing Uruguay Round meeting in Brussels in *the first week of December, Mr* John Crosbie, Canada's trade minister, said.

Although the ministers said *they were adamant in their* determination to complete the Round on time, some admit that the heavy agenda facing them in Brussels means there will have to be some residual talks after that meeting.

Mr Crosbie castigated the press for raising excessive expectations about what would be achieved at this stage.

The ministers, who between them oversee about 60 per cent of world trade, stood ready to provide leadership in the Round but had never intended to take decisions at St John's, he said. The Brussels meeting, by contrast, would be "sensational".

Discussion of the bitterly divided question of farm *reform was stymied at St* John's because the US, Canada and the EC will only table formal reform proposals to the *General Agreement on Tariffs* and Trade in Geneva this week.

However, the ministers did reach a consensus that their negotiators should try to reach agreement on some technical issues before *the Brussels* meeting. These include the elaboration of rules on general commercial and industrial subsidies on which the US is seeking strict curbs.

The ministers said they would also seek speedy resolution of differences between their countries on enforcement of intellectual property rights so as to clear the way for a broader agreement in Brussels.

They also accepted that there would have to be special *treatment for* some service sectors, such as air transport and shipping, which are governed by a network of bilateral arrangements.

Multilateral liberalisation, which is being sought for all service sectors in the Uruguay Round, could not apply to these sectors and they would have to be subject to special *derogations*. There was, however, no agreement on how permanent such derogations should be, or how they *should* be worded in the final package.

Participants in the talks said there was little sign of any fundamental *shift* by the ministers over a wide range of issues that still divide them in the Round.

These include tariff cuts and government procurement. Mr Frans Andriessen, EC trade commissioner, complained that Japan's offer to open up its government procurement to foreign companies was insufficient.

The offers by the US and Canada were also unsatisfactory because they did not *impose firm rules on private* sector companies such as AT&T and Bell Canada.

Uruguay agrees foreign debt deal with creditor banks

URUGUAY has secured agreement in principle with its leading creditor banks over reducing the burden of its $7bn foreign debt, writes Stephen Fidler.

The agreement was reached late last week in New York in discussions led by Mr Nicolas Herrera, Uruguay's *vice-minister of economy and* finance, and an eight-bank advisory committee led by Citibank.

The package – under the debt reduction framework named after Mr Nicholas Brady, the US Treasury Secretary – covers all the country's $1.7bn of medium- and long-term bank debt, except for a $45m co-financing loan with the World Bank. Uruguay owes approximately a further $600m in short-term debt not covered by the package. It allows the banks to choose among:

● Exchanging their loans for bonds carrying an interest rate of 6¾ per cent. The 30-year bonds will be fully collateralised by US Treasury bonds and carry collateral also to cover 18 months of interest payments. They will also have a so-called value recovery feature, yet to be finalised, to allow banks to receive higher interest payments depending on Uruguay's economic fortunes.

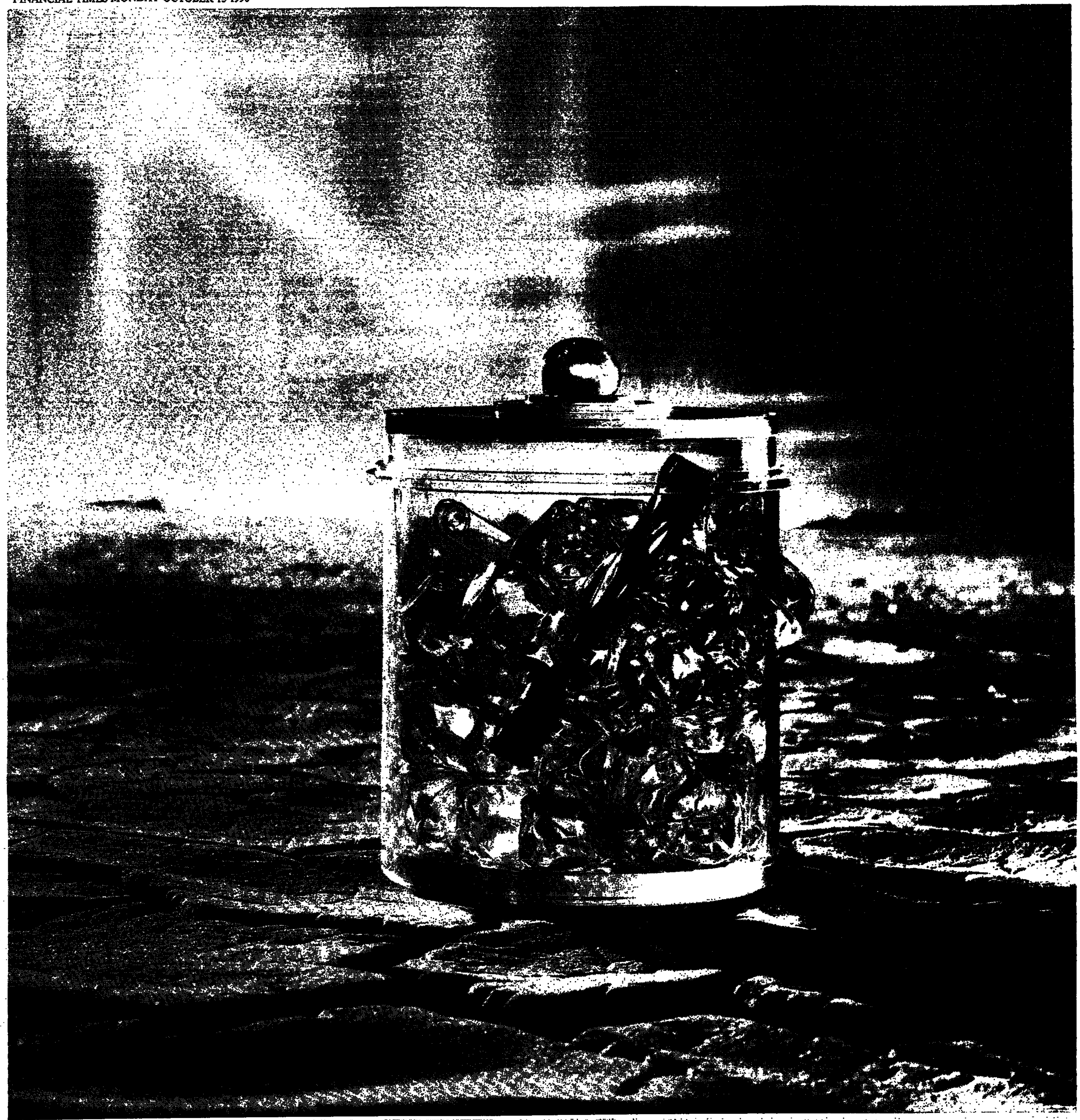
● Lending new funds equivalent to 20 per cent of their existing exposure. Banks will receive a new instrument carrying a 15-year maturity and a seven-year grace period, with an interest rate of 1 percentage point over money market rates. These instruments will be exchangeable into debt conversion instruments with a 16-year maturity, seven-years' grace and a ¾ point interest margin.

● Selling their loans at a discount to Uruguay for cash at a price yet to be determined.

Banks will be encouraged to respond early with a ½ point early participation fee. Uruguay will meet the advisory committee again on Thursday.

Brazil has told its leading bank creditors that it intends to pay no interest on its medium- and long-term bank debt until after the conclusion of negotiations on a debt restructuring agreement, bankers said yesterday.

They also said that the country's 22-bank advisory committee, led by Citibank, had unanimously rejected radical Brazilian proposals for reducing the country's debt burden.



INTERNATIONAL NEWS

Keeping Japanese cars at bay

Lucy Kellaway and Guy de Jonquières look at Brussels' problems with parallel imports

AS THE European Commission struggles to patch together a policy on Japanese car sales after 1992, it faces an awkward paradox. The more Brussels tries to lift trade barriers around the EC market, the harder it becomes to avoid creating new ones inside it.

The Commission wants to remove long-standing national restrictions on Japanese car imports in force in Britain, France, Italy, Portugal and Spain. It says these measures are incompatible with the single market and will be illegal after 1992.

Rather than risk an explosive political showdown with EC governments by challenging the curbs head-on, the Commission wants to negotiate an arrangement with Japan to control the growth of Japanese car sales in the five protected national markets for a limited period.

Though EC governments and Japan have broadly endorsed the approach, the Commission is already being accused of being too generous to the Japanese. Paris, Rome and most European car makers are unhappy about Brussels' estimates that Japan would be allowed to raise its share of the EC car market from about 10 per cent today to almost 19 per cent by 1998, when the planned controls would end.

Now, a new stumbling block has emerged. It not only complicates further the negotiations with Japan but has alarmed some European car makers by calling into question their existing sales arrangements in the EC.

The restraints proposed by the Commission would require Japan to "monitor" sales in protected EC countries such as France but would not affect open ones such as Germany. The system can only work if "parallel" or "grey" imports of Japanese cars do not flow from open EC markets into restricted ones.

The highly technical issue of how to prevent this has opened up deep differences in Brussels. At the heart of the argument is the 10-year "block exemption" from EC competition laws granted the motor industry by Brussels in 1985. The exemption entitles manufacturers to distribute cars exclusively through designated dealers.

However, the rules contain a loophole. To prevent prices from diverging too widely among EC national markets, it requires manufacturers to supply cars to dealers in one country for sale to buyers living in another. These "parallel" imports may be sold directly to individuals or through *mandataires*, specialised agents acting on their behalf.

The problem is that the exemption does not specify what *mandataires* are, or how many cars they may ship across borders. Mr Martin Bangemann, the industry commissioner, fears that unless the rules are tightened, they could undermine the proposed restraint arrangements by permitting unlimited "parallel" imports of Japanese cars into restricted EC markets.

But Sir Leon Brittan, the competition commissioner, takes a quite different view. He and his advisers are unhappy with the block exemption, which they regard as inconsistent with the single market.

They also question the underlying rationale for the exemption, which is to encourage dealers to invest in servicing and spare parts. They argue that the increased reliability of cars and the growth of independent service networks has made such special provisions unnecessary.

There is no question of scrapping the exemption before 1995, when it is due to be reviewed by the Commission. But Sir Leon wants to limit its effects on competition by treating *mandataires* liberally.

The argument has recently been given a further twist by Peugeot's attempts to prevent Ecosystem, a *mandataire* specialising in Peugeot cars, from buying them in Belgium on behalf of consumers in France, where prices are higher.

The Ecosystem case is being examined by the European Court, which is expected to ask the Commission soon for its own definition of a *mandataire*.

Mr Bangemann and Sir Leon are not finding it easy to agree.

Mr Bangemann's advisers admit they may need to give ground on the issue. However, if they move too far towards Sir Leon's position, they risk neutering the block exemption as a means of enforcing Japanese restraints. Some other mechanism would then need to be found to limit "parallel" Japanese imports.

Since that would probably require changes in national laws, the Commission would need to seek a special regulation from the Council of Ministers. That would have two disadvantages.

First, it would undermine the Commission's basic strategy of not seeking explicit approval for the proposed restraints from EC governments which, it fears, would never agree on a common line. Second, a regulation would, by definition, single out the Japanese for special treatment and show up EC policy as discriminatory.

Car makers such as Renault and Peugeot also fear such a regulation would be the worst of all possible outcomes because it would protect Japanese producers' margins while allowing them steadily to increase their sales in the European Community.

European producers, however, would be squeezed both by keener Japanese competition and by increased "parallel" imports of their own products.

Some industry experts think such concerns overdone. They say that, even without restraints, Japanese producers would not increase their share of EC sales much faster than estimated by the Commission because they have not promoted their products heavily in restricted markets and lack extensive dealer networks there.

That might seem to undermine the practical case for restraints. However, it is argued in Brussels that if there were no controls, Japanese companies would rush pell-mell to expand their EC presence.

Ultimately, the significance of parallel imports may depend on whether car manufacturers have used the block exemption – contrary to the Commission's intentions – to segment the EC market.

The answer may become clearer after the Commission completes examination of a formal complaint from BEUC, the European consumers' association, alleging that market segmentation is reflected in differences of more than 30 per cent between pre-tax prices charged for the same cars in different countries. That compares with the maximum 12 per cent variation which the Commission requires car makers to observe.

The car companies have replied by drowning the Commission with statistics. They say BEUC has not compared identical cars, nor has it taken account of the wide differences between prices charged to fleet and private buyers in Britain.

BEUC also alleges dealers seek to discourage parallel imports. Though precise figures are not available, it is estimated that France imports some 30,000 to 40,000 cars a year and that Belgium exports some 25,000 to 30,000.

But EC governments are also to blame. A Commission proposal to establish a single EC-wide type-approval system for cars has been blocked for more than a decade after being vetoed by France, Italy and Spain. As a consequence, authorities in car producing countries can, and do, take an unreasonable time to register parallel imports.

Mr Bangemann fears failure to devise a watertight EC system of restraints on Japanese car sales would lead to still higher national barriers by prompting governments to take unilateral measures to protect their markets after 1992.

But while Sir Leon endorses the case for restraints, he seems equally determined that they should not be purchased at the price of EC-sanctioned measures which distort competition and fragment the single market.

West European new car sales off 4.8%

By Kevin Done, Motor Industry Correspondent

WEST European new car sales fell by 4.8 per cent in September to 923,000, following a drop of 3.9 per cent in August, as demand weakened further after five years of record sales.

Most ominously, sales declined sharply in four of the five leading volume markets, Italy, France, the UK and Spain, with demand continuing to rise only in West Germany, the biggest single European car market.

Industry estimates show that new car sales in September fell by 7.5 per cent in Italy, by 11.6 per cent in France, by 10.6 per cent in the UK and by 23 per cent in Spain.

Across 17 western European markets sales were higher in nine and lower in eight, with the biggest falls registered in Greece, Sweden, Finland and Spain.

Germany remains the most important source for growth in new car sales, with a rise last month of 7.6 per cent in demand in west Germany.

Pent-up customer demand in east Germany is creating new demand for used cars built in the west, which in turn is driving up new car sales in the west. General Motors Europe says 300,000 cars (270,000 used and 30,000 new) were registered in East Germany in July alone.

In the first nine months of the year, western European new car sales were 0.9 per cent lower than a year ago at 10.4m, according to industry estimates. Sales were higher in 12 markets and lower in five.

The biggest declines have been registered in Sweden and in Finland, with a fall of 19.7 per cent in both cases.

The Volkswagen group of West Germany, which includes Audi and SEAT, is widening its lead at the top of the western European sales league, helped by faltering sales by the Fiat group of Italy.

For the past two years Fiat has failed only narrowly to oust VW from its leadership of the European market. In the first nine months this year its sales volume has fallen by an estimated 4.7 per cent, however, and the company is being forced to lay off workers and reduce production at several of its Italian car plants.

By contrast some VW car plants in west Germany are working extra shifts to cope with continuing strong demand. VW's share of the market has increased to 15.1 per cent from 14.8 per cent a year ago, while the Fiat group's share has dropped to 14.3 per cent from 14.9 per cent.

VW is set to remain the top-selling car-maker in western Europe for the sixth successive year. Its leading position is being boosted further by the unification of Germany, where it is the market leader in the former eastern part of the country. At the same time VW is also seeking to take a substantial stake in Skoda of Czechoslovakia in competition with Renault of France.

General Motors, the world's biggest car producer, is maintaining its strong performance in western Europe, where it remains the most successful of the big six volume car makers. Sales by its Opel/Vauxhall subsidiaries rose by 3 per cent in the first nine months.

Japanese new car sales have jumped by an estimated 5.9 per cent to capture around 11.6 per cent of the western European market, compared with 10.9 per cent a year ago.

Nissan sales have fallen as the company has been hit by the weakness of the UK market and by the change of model generation at its UK plant, but Japanese sales overall have been boosted by strong performances from Toyota, Honda and Mazda.

WEST EUROPEAN NEW CAR REGISTRATIONS
January-September 1990

	Volume (Units)	Volume Change(%)	Share (%) Jan-Sept 90	Share (%) Jan-Sept 89
TOTAL MARKET	10,367,000	−0.9	100.0	100.0
MANUFACTURERS:				
Volkswagen (incl. Audi & SEAT)	1,566,000	+1.3	15.1	14.8
Fiat (incl. Lancia, Alfa Romeo & Ferrari)	1,484,000	−4.7	14.3	14.9
Peugeot (incl. Citroen)	1,336,000	+0.1	12.9	12.7
General Motors (Opel/Vauxhall, US* & Saab)	1,227,000	+2.3	11.8	11.5
– Opel/Vauxhall	1,174,000	+3.0	11.3	10.9
– Saab**	44,000	−16.1	0.4	0.5
Ford (Europe, US* & Jaguar)	1,210,000	−3.2	11.7	11.9
– Ford Europe	1,192,000	−3.0	11.5	11.7
– Jaguar	15,000	−16.2	0.1	0.2
Renault	1,020,000	−3.3	9.8	10.1
Mercedes-Benz	333,000	+1.6	3.1	3.2
Rover	317,000	−6.3	3.1	3.2
Nissan	305,000	−5.0	2.9	3.1
BMW	285,000	−5.6	2.7	2.9
Toyota	280,000	+3.7	2.7	2.6
Mazda	218,000	+24.9	2.1	1.7
Volvo	188,000	−8.6	1.8	2.0
Mitsubishi	134,000	+3.0	1.3	1.2
Honda	124,000	+14.0	1.2	1.0
Total Japanese	1,214,000	+5.9	11.7	10.9
MARKETS:				
West Germany	2,292,000	+6.1	22.1	20.6
Italy	1,823,000	+0.3	17.6	17.4
France	1,733,000	+3.4	16.7	16.0
United Kingdom	1,698,000	−11.5	16.4	18.3
Spain	776,000	−9.2	7.5	8.2

*Cars imported from US and sold in western Europe
**GM holds 50 per cent and management control of Saab Automobile

Source : Industry estimates

Stay of execution sought for knacker's yard

By Tim Dickson in Brussels

THE knacker's yard – traditional destination in Britain and Ireland for farm animals which have served their purpose – is under threat of extinction from the European Community.

Proposals due to be discussed by EC agriculture ministers in Luxembourg today could give the institution, which has long been the butt of music hall jokes, just five more years of active service.

Then, animal waste disposal and processing will come under EC rules laying down mandatory heat treatment processes and other technical requirements capable of being met only by sophisticated industrial "rendering" plants.

It seems unlikely there will be a groundswell of sentimental public opinion against an "interfering" Brussels bureaucracy. But even so, the British government – in the shape of its farm minister, Mr John Gummer – does not intend to shirk a fight.

According to UK officials, Mr Gummer will argue that the knacker's yard, licensed and inspected under Ministry of Agriculture rules, poses no threat to public health and should be allowed to continue operating indefinitely.

Most other EC governments, which are unfamiliar with the British and Irish systems, have been suggesting in official "working group" discussions in Brussels that there is a danger of meat normally sold as pet food entering the human food chain.

There have been predictable mutterings about mad cow disease and reminders that its cause and effects have not yet been completely identified.

Most countries are therefore likely to support the Commission's proposal that the UK and Ireland should ultimately come into line with the new rules, which will divide animal wastes into high-risk and low-risk categories. "High-risk" animals will be those slaughtered because of a notifiable disease; low-risk animals will be those which have died as the result of an accident.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Sept.'90	Aug.'90	July.'90	Sept.'89
W.Germany 000's	1,728	1,813	1,864	1,881
%	6.6	6.9	7.1	7.3
US 000's	7,069	7,003	6,814	6,604
%	5.7	5.6	5.5	5.3
Belgium 000's	343.5	353.4	352.3	353.3
%	10.3	10.4	10.1	10.2
	Aug.'90	**July.'90**	**June.'90**	**Aug.'89**
France 000's	2,469	2,508	2,512	2,532
%	8.9	8.9	8.9	9.3
Japan 000's	1,300	1,260	1,320	1,400
%	2.0	2.0	2.0	2.2
UK 000's	1,658	1,624	1,556	1,639
%	5.8	5.7	5.5	6.1

Source: (except US, UK, Japan) Eurostat

Joe Matsau, Managing Director of the Lesotho Electrical Company, is bringing energy to the villages of his country.

Joe Matsau is bringing electricity to "The Kingdom in the Sky".

The de-forestation of some parts of Africa has been a matter of survival, not profit. In the mountainous kingdom of Lesotho, generations of villagers have had to live off the land for fuel to cook and heat their homes.

Joe Matsau of the Lesotho Electrical Company has a promising alternative. He is directing a long-term rural electrification programme which will make his country energy self-sufficient.

Hydro-electric power is the key, with transmission lines reaching up to over 2,000 meters into the "Kingdom in the Sky", as it is known locally. Village by village, Lesotho is switching dependency from the earth's fragile resources to the fruits of man's ingenuity.

"We still have a long way to go", says Mr. Matsau, "but the programme would never have seen the light of day without ABB's help – not just their technology, but their skill in identifying crucial aid and loan sources for us."

"The world is changing fast. To catch up, we have to change even faster. And, thanks to ABB, we're doing just that."

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CONTRACTS & TENDERS

Invitation To Tender

Tenders are invited for the urgent supply of 18,732 tonnes of soft wheat, with sufficient empty new 50 kg. Jute Bags, needles and twine, to Ethiopia for delivery on fob stowed and trimmed terms to an EEC port Loading shall commence no earlier than 19 November 1990 and no later than 10 December 1990 for 4 weeks.

The price for the supply and transportation costs of the soft wheat for the above tender will be determined on examination of the tenders which must be submitted by noon on Friday 26 October 1990 to:

Crops B (Cereals)
Intervention Board
Fountain House
2 Queens Walk
Reading
Berks, RG1 7QW

Tel: Reading (0734) 583626 ext. 2911.

Notices of invitation to tender together with tendering forms may also be obtained from the above address.

Extension of Closing date for Bid Submission

The Ethiopian Transport Construction Authority announces that the closing date for submission of bids for its tender No. T - 01/83 is extended to November 15 /1990 at 10:00 hours local time.

All bidders are requested to note the change and submit their bids accordingly.

ETHIOPIAN TRANSPORT CONSTRUCTION AUTHORITY

RENTALS

OBITUARY

McGrath

On October 11th suddenly in Spain, Peter William McGrath aged 58, dearest husband of Margaret and loving father of Jenny, Caroline, Melanie and Nicholas. Details of funeral arrangements from 0293 851519.

INTERNATIONAL NEWS

Disillusioned after Peking massacre, Chinese army men form secret group

Officers in move to restore Zhao

By Peter Ellingsen in Peking

PEOPLES' Liberation Army (PLA) officers who are disillusioned over last year's Peking massacre and subsequent purges in the military have formed a secret group intent on reinstating Zhao Ziyang, the disgraced former Communist Party chief.

According to a source within the PLA, the group, mainly comprising officers from military regions in the south and south-west, where Zhao is popular, has the sympathy of a number of influential army figures, including, it is believed, at least 17 senior PLA officers demoted or disciplined after the massacre.

The clandestine group has about 300 supporters in Peking and about 1,000 in the southern Guangzhou and Chengdu military commands, both areas where Zhao has worked and built up a following.

Though still embryonic, the group has raised substantial funds and won the backing of at least one senior commander who had opposed using armed troops to quell the turmoil on June 4 last year.

The group is loyal to the party, but opposes the current clique running the army. It has no outside links and believes the party will have to re-assess the killings before regaining its lost prestige.

Zhao was dismissed for siding with Peking's student-led protesters shortly before troops marched on the capital, killing an estimated 1,000 residents. He is under house arrest and officers he favoured have been swept aside by doctrinaire hard-liners.

The group is not yet sufficiently large or well organised to challenge the PLA's conservative leadership, but its existence points up deep divisions within the army and festering resentment of officers forced to take part in military action against anti-government demonstrators.

A number of soldiers are known to have resigned after the massacre, while others who showed reluctance to fire on unarmed civilians have been punished.

It is known that bitter argument between commanders, notably officers leading the Peking garrison, who opposed troops entering the capital, and forces led by martial law officials, took place on the eve of the massacre.

According to the PLA source, skirmishes erupted between the factions both in Peking and the south, and were followed by a complete reshuffle at the top of China's seven military regions. There is continuing resistance to the "political re-education" that is now a big part of military training, the source explained.

He said a main grievance was the growing influence of the Peoples' Armed Police, now said to number 1.85m, nearly as many as the regular army, which has 2.3m men, and considered by many in the rebel group to be a palace guard.

It is not known if the PLA is aware of the rebel group, but officials have regularly expressed concern about army unity, particularly after a poster criticising President Yang Shangkun, who is also vice-chairman of the Central Military Commission, went up on the campus of a Peking army academy.

Bangladeshi students clash with police

BANGLADESHI students fought pitched battles with police over the weekend as the government of President Mohammad Ershad took steps – including the closure of all educational institutions in Dhaka City – to quell the pro-democracy student movement in Bangladesh, writes Reazuddin Ahmed in Dhaka.

Thousands of students demonstrated against the closure of the Dhaka university and other educational institutions. They burned scores of vehicles and attacked railway stations in a number of towns. Offices of the ruling Jatiya Party also came under attack around the country.

Bangladesh's mainstream opposition, fragmented by rivalry for the last 2½ years, has come under pressure from the students to overcome internal differences in an effort to topple the government.

The latest trouble began last week when five people, including three students, were killed during a demonstration by opposition parties and students.

President Ershad, who seized power in a military coup in 1982, has come under pressure from the opposition to resign to pave the way for a free and fair election in Bangladesh.

A car burns in a Dhaka street after a student protest

Pakistani alliance tries to demonstrate unity

By Farhan Bokhari in Lahore

WITH only 10 days before parliamentary elections on October 24, Pakistan's government-backed Islamic Democratic Alliance (IDA) launched a new campaign in Punjab at the weekend, to demonstrate greater unity among its leaders.

The move came after recent inroads by the ousted prime minister, Ms Benazir Bhutto, in this politically crucial province, where almost half the seats for the national assembly will be contested .

Prominent among the alliance leaders were Mr Ghulam Mustafa Jatoi, the interim prime minister, and Mr Nawaz Sharif, the IDA chief, who appeared together for the first time since their campaign began. The alliance also tried to dispel worries about divisions on deciding a candidate for prime minister.

Mr Jatoi's and Mr Sharif's speeches were meant to serve the twin purposes of boosting party morale as well as denouncing the performance of Ms Bhutto's former government, two themes which will dominate the IDA's campaign in coming days.

Despite scepticism in recent weeks about whether elections would be held at all, preparations are gaining momentum. Banners have started appearing on buildings, rental trucks are being booked by campaign staff and provincial governments are finalising dates for closing schools to allow teachers to work at polling stations.

But there is still lingering uncertainty. Many Pakistanis have become convinced that as Ms Bhutto's popularity rises and her electoral chances improve, Pakistan's interim government will prevent her from coming back to power.

Bhutto interview, Page 38

Obituary: Le Duc Tho

The revolutionary who outsmarted Henry Kissinger

LE DUC THO, one of the last surviving heavyweights of the Vietnamese revolution and the man who grabbed world headlines by outsmarting Dr Henry Kissinger at the Paris peace talks in 1972, died of cancer in Hanoi on Saturday, aged 79. He had been seriously ill since April.

Ironically, his death comes at a time when the US and Vietnam again find themselves locked into negotiations. This week Nguyen Co Thach, Hanoi's foreign minister, returns to Washington to continue discussions aimed at normalising relations between the two countries. Since 1973, hardliners on both sides have prevented any fruitful contact.

Le Duc Tho was born in the northern province of Nam Dinh in 1911. He was a founder member of Ho Chi Minh's Communist Party of Indochina in 1930. Twice imprisoned by the French, he became a permanent member of the Central Committee (politburo) in 1944. In 1945 he was assigned the honour of escorting Ho Chi Minh to Hanoi from the Viet Minh's mountain base at Tan Trao, following the successful August uprising. Thereafter, in the eight-year war against the French, Tho developed into his party's organisational anchorman.

In the war with the US, he directed the insurgency in the south. After his political triumph in Paris, he resumed this role against the forces of President Thieu. Famously, in the final "Ho Chi Minh" campaign that led to the fall of Saigon, he arrived unannounced on a motorcycle in the dead of night at the Communist military headquarters to take charge personally of the final thrust into the Mekong delta.

After 1975 he continued to play a leading political role inside a reunified Vietnam. He remained on the politburo until 1986, and even then his influence was still felt in a political culture where the old Confucian respect for age has never entirely given way to seniority by rank.

Tho embodied both the glory and the tragedy of the Vietnamese revolution. The glory consisted in the Communists' astonishing military victories over both France and the US. The tragedy has been the communist system's inability to create an economy and society that can begin to match what has been achieved by many of Vietnam's neighbours.

In part Vietnam has been thwarted since 1975 by the continuing hostility of the US, which has applied a trade embargo that has largely isolated the country. But as Le Duc Tho was the first to admit, by no means all the blame was attributable to external forces.

Last December, when I interviewed him at his villa in Saigon, he told me: "We freely admit that some cadres at some levels are corrupt. Now the economy consists of many elements, and naturally there is competition between those elements. So there is a tendency toward chaos, even anarchy, a tendency toward speculation and bribery. And from these other social evils have begun to flow unemployment, embezzlement, robbery, prostitution. . ."

But to the last Tho rejected any suggestion that the economic failures of Marxism-Leninism were inherent in the system. The collapse of communism in eastern Europe, he said, was due to "degeneration of the leaderships".

Although his passing will make life easier for a growing number of Vietnamese politicians, both inside and outside the party, who wish to bring about a relaxation of the old order, the ideals he stood for are unlikely to wither away overnight.

As a man, Le Duc Tho was by no means the implacable, hard-faced ideologue depicted in some American history books. He exuded extraordinary charm.

When I quizzed him about Dr Kissinger, he smiled: "He had many manoeuvres, and his manoeuvres were rather wicked." But then, with another smile, he added: "I would have to say, though, that Kissinger was also a joyful person. He made many jokes."

Justin Wintle

The latest line in performance cars from Mercedes-Benz

The body line says estate. The versatility says estate. So do the load space and weight-sensitive, self-levelling suspension.

But the 24-valve 3.0-litre engine says something altogether different because the Mercedes-Benz 300TE-24 is an altogether more exotic machine.

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The 300TE-24 is an estate whose rich mix of abilities is more than rare. It is unrivalled. It is the only car on the market that will accommodate dozens of cubic feet of cargo while putting 231 bhp under your right foot.

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There are Sportline seats, too, which anchor the driver and front passenger even more securely against strong cornering forces. And the smaller, Sportline steering wheel is covered in soft, stitched, nappa leather.

Welcome, in other words, to the complete driver's car, the complete people carrier, and the complete all-purpose work-horse.

Pioneering Safety

The class-leading 300TE-24 is the complete automotive companion in other ways, too. As an exemplar of safety, for instance. The six estates (five petrol and one diesel), like every Mercedes, are built around a rigid safety cell and impact-absorbing crumple zones (40-year-old Mercedes-Benz patents that have only more recently been mimicked by other car makers).

And the environment-friendly 200TE, 230TE, 300TE and 300TE-24 are all fitted with closed-loop three-way catalytic converters as standard.

A further bonus for the top-of-the-range Mercedes-Benz estate owner is a nigh-on two-tons towing capability (the sort of reassuring muscle you'll appreciate when your cargo is even more precious than your 300TE-24).

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UK NEWS

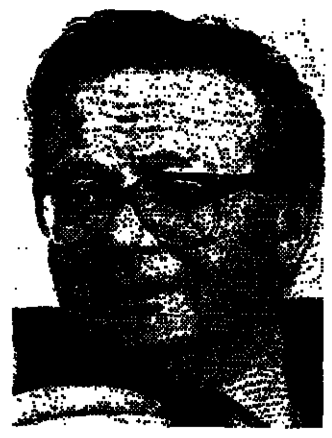
Education plans expose cracks in Tory agenda

By Ralph Atkins and Norma Cohen

THE FIRST public cracks in the Prime Minister's agenda for the 1990s, set out at the end of last week's Conservative party conference, appeared yesterday over the suggestion that parents might be offered vouchers with which to "buy" their childrens' education.

Two days after Mrs Margaret Thatcher hinted at the possibility of extending the voucher system to education, Mr John MacGregor, education secretary, distanced himself from the suggestion by saying that changes already being introduced went a long way towards meeting the objectives of such schemes. He stressed the potential benefits from the Education Reform Act but said they were "bound to take time" to come through.

The differences came as the government nears the end of one of the toughest public spending rounds for years



John MacGregor: worried

which has highlighted tensions within the Cabinet over priorities for the year ahead – as well as the longer term.

The departments of education and employment, the Home Office and Ministry of Defence face the prospect of settling in the "star chamber" of Cabinet ministers if agreement with the Treasury is not reached soon.

In a television interview, Mr MacGregor backed the pilot voucher scheme for training, but said: "What we are doing in education is moving a long way in the direction of meeting the objectives of educational vouchers."

Parents were being given greater choice via schools opting out of local authority control, "open enrollment" in state schools, and budgets in which funds followed pupils.

Mr MacGregor, who is understood to be worried about the administrative cost of education vouchers, did not rule out a scheme in the future but said: "The question of whether its in the manifesto or not is one we will decided when we approach the election."

Hurd denies asking former Tory leader to visit Iraq

By Ralph Atkins in London and Tony Walker in Cairo

THE PLANNED trip to Iraq by Mr Edward Heath, the former prime minister, fuelled fresh controversy yesterday when Mr Douglas Hurd, foreign secretary, was forced to deny he had asked Mr Heath to visit Baghdad.

Conflicting accounts of who initiated Mr Heath's visit, aimed at seeking the release of sick and dying British hostages, added to the confusion about the UK government's attitude to his mission.

Speaking to reporters in Cairo, Mr Hurd said he first heard of the visit on returning from New York on September 28. He had phoned Mr Heath

Douglas Hurd: denial

the next day and "neither encouraged nor discouraged him from the expedition".

They discussed what "the practicalities might be if he went", Mr Hurd said, and it became clear that the status of the mission was personal, humanitarian and not on behalf of the government. The foreign secretary denied he had asked Mr Heath to go to Iraq and rebutted reports that Mrs Margaret Thatcher had not been informed of the proposed mission.

Earlier, Mr Heath said in a television interview that relatives of hostages Iraq and Kuwait had approached the foreign secretary and asked for help. Referring to his conversations with the foreign office, Mr Heath said: "I finally said yes, if I was required, I was prepared to go."

Union chief issues pay ultimatum

By John Gapper

THE EETPU electricians' union would break any form of wage restraint agreed between the Confederation of British Industry, the employers' organisation, and the Trades Union Congress which included a minimum wage, Mr Eric Hammond, EETPU general secretary, warned yesterday.

Mr Hammond said a voluntary incomes policy based on a "national economic assessment" of the type being suggested by some union leaders could not be achieved because it would be ignored by the EETPU and other unions.

Mr Hammond's intervention marks the first time a union leader has explicitly promised to ignore the outcome of a national economic assessment.

"I believe it will not work: the restraint' part is not deliverable. The CBI and the TUC can talk away, but they will not bind this independent trade union, and what union could be bound with the EETPU running free?" he said.

Safety review urged for Channel tunnel

By Our Labour Staff

A MEMBER of the Health and Safety Commission, the government workplace watchdog, yesterday called for it to take over responsibility for safety in the Channel Tunnel after fire officers said they believed planned methods of travel in the tunnel were unsafe.

Mr Paul Gallagher, president of the EETPU electricians' union and a Health and Safety Commissioner, said he was unhappy at the conduct of the Channel Tunnel Safety Authority, which has primary responsibility for safety.

Mr Gallagher was speaking after members of the National Association of Fire Officers (Nafo) said that transport methods and fire control plans within the tunnel could be unsafe and should be revised even if it slowed journeys.

Mr Mike Davis, a Nafo delegate, told a conference of the EETPU's Federation of Professional Associations, that the union had "come up against a complete brick wall" in its complaints about safety.

The Health and Safety Executive acts as an agent of the Channel Tunnel Safety Authority, which is appointed by the government. Mr Gallagher said the authority was denying any public scrutiny of its safety rules.

The Channel Tunnel project has already been the subject of concern over safety because of the deaths of construction workers. The consortium of building contractors in the project has been prosecuted several times.

Among the complaints about safety procedures made at the conference were that passengers in cars would not be segregated from their vehicles on the tunnel trains, and that evacuation in the event of fire would be too slow.

Mr Gallagher said the authority had already said that public consultation on safety would be impractical in a project as technically complex as the tunnel, but he believed open debate was essential on an important project.

Pentos chairman to see lawyers on books injunction

By Raymond Snoddy

MR TERRY MAHER, chairman of Pentos, will consult lawyers today about whether to challenge the interim injunction preventing him from selling most of the books on the Booker Prize shortlist at a discount.

"What is certain is that what we have done is in breach of the Net Book Agreement (NBA)," Mr Maher said yesterday.

Last week Mr Maher's company quietly amassed around 20,000 copies of the six Booker novels. It offered them for sale on Friday and Saturday at discounts of between 25 per cent and 27 per cent of the price set under the agreement – one of the few remaining vestiges of resale price maintenance. The agreement sets minimum prices for the sale of most books.

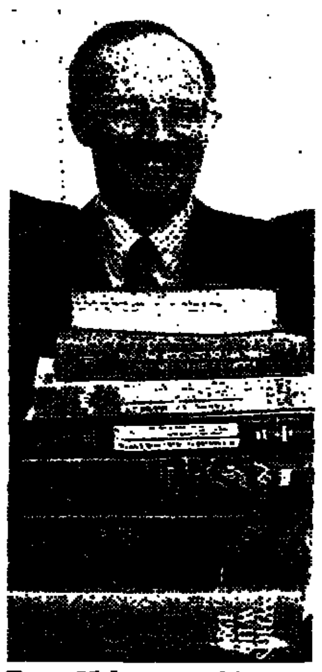
The injunction was obtained on Saturday by Chatto & Windus, Collins and Bloomsbury. Faber and Duckworth, the other two publishers of titles on the Booker short list, said they wished to be associated with it.

Yesterday Mr Maher, who has campaigned against the agreement for several years, said the publishers had caved in to pressure from reactionaries in the book trade, "no doubt including other major retailers and the bureaucrats of the Publishers Association".

Mr Maher said his initiative had been a commercial success with some people buying the entire set of hardback novels.

The Pentos chairman said yesterday he would now be taking his campaign against the NBA, which he described as a "conspiracy against the public interest", to the Office of Fair Trading, the responsible minister at the Department of Trade and Industry, Mr John Redmond, and to the European Commission. He said he would continue selling at a discount the two novels of the publishers not directly involved in the injunction.

Although Mr Maher wants to overturn the NBA his short-term goal is to change the rules to include the automatic discounting of books that are outside the agreement. Publishers are already free to publish a book outside the agreement and therefore allow it to be discounted.



Terry Maher: attacking "conspiracy" against public

The Restrictive Practices Court looked at the NBA twice in the 1960s and decided that abolishing it would lead to fewer, more poorly stocked bookshops and higher prices. Last year Sir Gordon Borrie, director general of fair trading, ruled that circumstances had not changed enough to justify returning the issue to the court for another look.

Mr Clive Bradley, chief executive of the Publishers Association, argued yesterday that the NBA still made available a wider range of books at lower prices than any other developed country.

He accused Mr Maher of "bargaining temporarily cheaper bestsellers for wide variety and availability" of quality books in a range of bookshops. Mr Bradley added, however, that he welcomed Pentos's desire "to help expand the market for books but we believe that this one aspect of their marketing policy is counter-productive".

Taking market forces to school

Norma Cohen reports on revived Tory plans for education vouchers

MRS THATCHER has chosen the weapon of market forces to attack Labour's convincing lead in education policy and has resurrected the idea of school vouchers.

The Conservatives, anxious to avoid a bidding contest with Labour over school funds, are now considering an education reform even more market-driven than any to date.

The issue of education vouchers has lain dormant among Tory manifestos for years, rising only as a matter for serious consideration in the early 1980s.

Vouchers, issued and financed by the government, would represent cash in hand to parents, allowing them to buy education at any school, state or private, that they wished. But the Tories' hand could be forced by Labour's convincing lead on education policy in public opinion polls and its decision to place the issue at the top of its own political agenda.

"Mrs Thatcher is an instinctive politician," said Sir Rhodes Boyson MP, a former education minister and one of the leading proponents of vouchers. "She knows that we are so far behind Labour on education and she sees this as the way to counter their lead. She knows something must be done."

Sir Rhodes said the policy was in keeping with the theme of "parent power" which gained ground for the Tories in the late 1980s.

Significantly, Mrs Thatcher's man on the ground, Mr John MacGregor, education secretary, does not quite see it that way. In spite of vociferous efforts by his office to play down the differences – "it's totally incorrect that there is any disagreement between the education secretary and the prime minister," his office said yesterday – Mr MacGregor clearly favours a less radical approach to reform.

Privately, Mr MacGregor is said to be lobbying the Treasury for a huge £1.5bn increase in next year's schools budget, with much of the increase targetted for badly needed capital improvements.

With opinion polls showing the Tories vulnerable on the education issue and with the business community joining the chorus complaining of underfunding, Mr MacGregor is arguing that a special case must be made for education.

However, aside from philosophical arguments about spending, Mr MacGregor has been subject to attacks from the Tory right who argue that he has been insufficiently radical in his approach to reform.

Significantly, in a television interview yesterday, Mr MacGregor pointedly refused to endorse the concept of school vouchers, saying that the thrust of existing reforms was capable of accomplishing the objectives of vouchers anyway.

John MacGregor: voucher scheme may not be needed

"We have not developed plans for vouchers. There are elements in them which may or may not work," he told the BBC. While vouchers, which would allow parents to "buy" their children's education in either the state or independent sector, were still a "live option", Mr MacGregor said they might simply turn out to be unnecessary.

For instance, the new policy of "open enrolment" now allows parents to send their child to any school where a place is available rather than limiting the choice to the nearest one.

Thus, ineffective schools will see declines in enrolment – matched by cuts in funding – and consequently will be forced to close.

Meanwhile, Mr MacGregor's success in achieving the Education Reform Act's most contentious existing reform, opting out of local authority control, has also been widely criticised by party radicals.

While Mrs Thatcher has said she believed "most" of the nation's 4,250 secondary schools would wish to do so, only 50 have opted out in the nearly two years since the reforms were passed.

Privately, Mr MacGregor is said to believe that if a majority of the nation's schools did opt out, the result could be an administrative nightmare for central government, which would have to supervise and fund thousands of schools.

At Bournemouth, his response to the party faithful unhappy with the pace of opting out was to announce that small primary schools would now be able to do so and that any school which did would be eligible for a higher start-up grant.

Oxford University forced to trim plans for expansion

By Norma Cohen, Education Correspondent

OXFORD University plans to slow the pace of its expansion over the next five years because it does not have the space or funding to maintain its current growth, according to a university document.

The university's plans for expansion and funding are contained in its bid for funds from the Universities Funding Council. For the first time this year, all universities were required to "bid" for students, with each student to be funded at a pre-arranged level.

The council developed "guide prices" for universities, indicating that it would allocate the most places to those which offered bids below the guide price, provided the institution could guarantee that quality would be maintained.

Meanwhile, Oxford said in its document that it has been operating at a fiscal deficit and will not break even until the 1994-95 academic year. Its deficit is expected to peak at about £1.4m in 1992-93, decreasing thereafter.

The university said it believed it was more important to spend money on infrastructure improvements than to replenish its reserves. While many British universities are running at a deficit most are counting on an increase in student numbers to improve their finances.

Overall, universities have bid for an increase to about 360,000 students by 1995 from the current level of 285,000 – a 26 per cent increase.

Oxford University's student population has increased by 10 per cent over the past five years and its latest plans call for the number of full-time undergraduate students to rise to 10,312 from 9,603 by 1994-95 – a rise of only 6 per cent, well below that of British universities generally.

Separately, Oxford said that one of its key objectives was to widen the range of applicants it accepted. "Oxford is actively reviewing ways of widening access, both to 18-year-olds from schools which have not traditionally sent students to Oxford and to 18-year-olds and mature students with qualifications other than A-levels," it said.

The university also said that several of its faculties were actively considering the introduction of a four-year course of study to run parallel with the traditional three-year course.

Labour wants consumers' charter to protect investors

By Philip Stephens, Political Editor

THE LABOUR PARTY will today demand a consumers' charter to protect investors when the European Community's single market in securities, banking and insurance takes effect in January 1992.

Ms Marjorie Mowlam, Labour's City spokeswoman, intends to use a Commons debate on the issue today to voice concern that the level of protection given to individual investors will be undermined once the single market takes effect.

She warned yesterday that a directive planned by the European Commission was not scheduled for consideration until late next year leaving no time to install the necessary safeguards by January 1992.

Labour is concerned about the system of home country authorisation and host country regulation under which the single market in financial services will operate.

Companies from other EC countries operating in the UK will be given a community-wide "passport" based on their own country's rules rather than on British requirements.

Ms Mowlam said that the "minimum harmonisation" meant that individuals entrusting their savings to a European company operating in London would not be automatically guaranteed the same provisions for redress, complaints procedures and compensation as they would receive from a British institution.

Waddington 'not a candidate'

MR David Waddington, home secretary, yesterday said he would not be a candidate to succeed Mrs Thatcher as leader of the Conservative Party.

Mr Waddington, aged 61, said on TV-am: "I am a bit long in the tooth . . . they are always talking about young men who are going to take over from Margaret Thatcher and I think that is the sensible way of looking at it."

He added: "I can't believe for one moment, even if I had ambitions in that direction, they would be looking for an old fuddy-duddy like me."

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For a long time, Berlin was a symbol of freedom throughout the world. Now it stands for a new unity, a centre of new hope, a meeting place for people from East and West. This city is Lufthansa's home. This is where our history began. This is where, on 6th January 1926, Lufthansa first took to the skies. Little wonder, then, that Berlin is where our heart lies. And now that we've regained the freedom to fly you there we intend to rebuild Berlin as one of the major airports in our worldwide network of services. With nonstop flights from major German airports and from attractive destinations in Europe and around the world. Where else than in the heart of Europe are there more opportunities today for renewing old acquaintances and forging new business links? Berlin opens its arms to people from all over the world. And flying Lufthansa is the best way to get there. We're looking forward to welcoming you on board in the very near future.

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SEA LH IN/90

British Steel may build £300m mill on Teesside

By Charles Leadbeater, Industrial Editor

BRITISH STEEL is considering plans for one of the largest single investments it has ever made, the construction of a new plate mill on Teesside which could cost about £300m.

The project would lead to the closure of British Steel's two old plate mills at Dalzell, Lanarkshire, and Scunthorpe, Humberside. The new mill would be close to British Steel's integrated works at Redcar on Teesside.

The main recommendation in a wide-ranging internal British Steel review of its strategy in the plate market was that a plate mill should be built on a greenfield site. A move to close Dalzell would fuel Scottish fears that British Steel is in the midst of a strategic withdrawal from Scotland.

British Steel will close its hot strip rolling mill at Ravenscraig, Lanarkshire, next April with the loss of 770 jobs. *From 1993 there will be a* shadow over Ravenscraig's basic steel-making facilities, which employ a further 2,500 steelworkers, as the plant will no longer supply other British Steel plants and will have to *compete in the open market.*

The Clydesdale tube plant, the other main Scottish works, which has a workforce of about 1,200, is also vulnerable. It is competing in a market which is burdened with considerable excess capacity, with most European plate mills operating at only 65 per cent of their full capacity.

Sir Robert Scholey, the company's chairman foreshadowed the review's conclusions earlier this year at the company's annual meeting when he told shareholders that the review had found that the Dalzell and Scunthorpe plate mills lagged well behind the best in the world.

However, the decision on whether to act on the report's recommendations is weighing heavily with the company's senior management. It is yet to be considered by the British Steel board.

The company on Friday dismissed suggestions made by the Scottish National Party that a decision on the plate mills' future had been postponed for two years.

The company is concerned *not to inflame* unnecessarily opinion in Scotland after the outcry which followed its announcement in May of the Ravenscraig closure.

The demand for investment comes as British Steel's mar*gins are being cut into by* weakening prices and rising raw material costs. Meanwhile it is also pursuing costly plans for international expansion to reduce its reliance on the UK market.

Job losses follow fall in demand for forklift trucks

By Charles Leadbeater and Patrick Harverson

A DROP of about 20 per cent in demand for forklift trucks is forcing manufacturers into cost cutting moves. Lansing-Linde, the leading UK forklift truck manufacturer, plans to make 350 workers redundant in the next six months at its plants at Basingstoke, Hampshire.

The redundancies among the company's 1,650-strong workforce will be the biggest job cuts at the site since the recession of the early 1980s.

Lansing-Linde was created nearly two years ago when Linde, the leading German manufacturer, bought Lansing Bagnall, then the largest independent UK producer.

Lansing-Linde estimates the market for standard counterbalance forklift trucks is 18-20 per cent down on last year.

The market for more specialised narrow-aisle trucks, which are used in stores and warehouses, is down by 23-25 per cent, the company said.

This tallies with estimates from other UK-based manufacturers of forklift vehicles. Mr Trevor Bowman-Shaw, vice-*chairman of Lancer Boss, the* UK's leading independent forklift truck maker, estimates that demand for trucks in the 2-3 ton range is down approximately 15-20 per cent on last year.

Last year was an exceptionally good year for the industry, as companies rushed to replace old lift trucks and material-handling machines with new equipment.

However, the squeeze on UK corporate profits brought about by high interest rates has forced companies to cut back investment plans.

More companies are keeping old equipment rather than replacing it, which has rapidly lowered demand for forklift trucks and related machinery.

Mr Pat Millard, managing director of the main UK dealer *for* Komatsu, the Japanese truck maker, said that for the first time in four years he was not planning to recruit new staff to his sales force this year.

An even gloomier picture was *painted by Mr Bob Bis*chof, chairman of the UK operation of Jungheinrich, the German manufacturer. He said that sales were down 20 per cent across the whole range of products, while demand for automated guided vehicle systems, an advanced form of handling equipment, had "died a death" this year.

Mr Bischof, who criticised the government's high interest rate policy and British industry's reluctance to invest in sophisticated capital equipment for the long-term, believed conditions in the UK would get worse before they improve.

The decline in UK sales is not part of a worldwide slowdown. Overseas demand remains strong, say most manufacturers. France buys 2½ times more of Jungheinrich products than the UK while German sales are 3½ times higher.

The fall in demand for lift trucks and material-handling equipment in the UK shows how hard *high* interest rates have hit capital spending by industry in the past year. Total fixed investment throughout the economy in the second quarter of this year *was 3 per* cent lower than in the previous three months and 1 per cent down on the same period in 1989.

This compares with an annual rate of investment growth last year of nearly 5 per cent.

Orders for new warehouses and factories have been cut back sharply, according to the latest government statistics on activity in the construction industry.

However, the current downturn is nowhere near as intense as the recession of a decade ago when the UK forklift truck market halved in a *month and thousands of manu*facturing jobs were lost.

Plan to clear waste site for homes

By John Hunt, Environment *Correspondent*

ONE of the UK's biggest waste disposal operations is planned by the Cardiff Bay Development Corporation in order to clear sites for new housing.

A total of 3.5m tons of household refuse has been dumped over the years on the site where the Cardiff Bay business and housing project is now under way. It will cost about £80m to remove the waste and replace it with clean material.

The corporation is negotiating with British Rail to have a rail link and transfer station built to carry the waste from *sites* which Cardiff City Council has used for dumping domestic refuse.

Four trains a day would leave the area and it is expected that full clearance of the site would take more than five years.

Meanwhile, the corporation is seeking tips for the rubbish. Talks have been held with Shanks and McEwan, the waste management company, about using its sites on old *brickfields in Bedfordshire.*

Companies which build houses in the Cardiff Bay area – some 2,200 are planned – would be expected to meet the cost of moving the refuse to the rail link.

Economy of north-west found to show little sign of recession

By Ian Hamilton Fazey, *Northern Correspondent*

THE ECONOMY of north-west England is still showing little sign of recession, although it is slowing down, according to a survey by Manchester Chamber of Commerce and Industry of the third quarter of the year.

Ten chambers of commerce affiliated to the Manchester chamber took part, covering the most economically active parts of the north-west – Greater Manchester and Lancashire – and with 522 businesses employing more than 100,000 people reporting. The trend in manufacturers' orders was for a decline but nearly all other trends remained positive, although mostly weaker.

Although service sector's trend in orders fell to zero in UK markets, it maintained a strong momentum in exports, with only 19 per cent of companies reporting fewer orders than from April to June.

Turnover forecasts in the Manchester survey also remained strongly positive, with 49 per cent of manufacturers and 51 per cent of service companies predicting increases, against 21 per cent of both manufacturers and service companies predicting a fall in the next 12 months.

Profit forecasts are less confident, with 31 per cent of manufacturers and 30 per cent of service companies forecasting decline. However, nearly 38 per cent of all businesses in the survey still see profits rising in the year ahead.

There is caution on investment, with the majority of businesses staying with existing plans, The survey does not show whether this means doing nothing at all but where there is change, trends are *still positive.*

Among manufacturers, 22 per cent are revising spending plans upwards for plant and machinery, against 17 per cent revising them downwards. The corresponding figures in the service sector are 25 per cent and 15 per cent.

Fewer graduates expected to join chemicals industry

By Clive Cookson

CHEMICALS companie expect to recruit 11 per cent fewer university and polytechnic graduates than in 1989 this year, although the number of women going into theindustry is up sharply on previous years.

The annual recruitment survey by the Chemical Industries Association shows that 935 new graduates will join member companies this year, compared with 1,049 in 1989 and 1,018 in 1988. Almostall big UK chemical companiestake part in the survey, including ICI which accounts for about a third of total recruitment.

While the fall may be related to a cyclical downturn in chemicals, the association says: "This must be seen in the context of 1988 and 1989 being exceptional years".

Mr Paul Leonard, who carried out the survey, says he does not expect a big fall next year. This year 40 per cent of the industry's graduate recruits are women compared with 22 per cent in 1989.

APPOINTMENTS

Readership surveys chairman

■ Mr Michael Mader has been appointed cairman of *JICNARS, the oranisation* supported by pulishers, advertising agencies and advertisers, respnsible for producing The National Readership Sureys. He is a director of Hill Samuel Bank, Southnews, Thomson Directories, and chairman of M.A.I.D. Systems.

RHM COMPUTING, a subsidiary of the Ranks Hovis McDougall Group, has appoined *Mr David Batts (picturd)* as chief executive. He was director, professional services.

Mr Jef P. Lawler has been appointed managing director of AIM *PROFESSIONAL* SYSTEMS which supplies IT systems to solicitors' practices. He was managing director of AIM Training Services.

■ HENRY BARRETT GROUP has appointed Mr Don Reynolds as chairman of its subsidiary Don Reynolds International. He was chairman, Don Reynolds Group. Mr Ron Hitchmough has been promoted from sales and marketing director to managing director.

■ QUAYLE MUNRO, Edinburgh, has appointed Mr Rod Petrie as an executive *director.* He was a partner with Ernst & Young.

■ THE YASUDA FIRE AND MARINE INSURANCE CO OF EUROPE has appointed Mr John Graves as chief accountant and company secretary,and Ms Jacqueline Stedman as assistant manager.

■ Mr W.I.G. Rees has been appointed a non-executive director of CAMBRIDGE VETERINARY SCIENCES, Ely. He was chief veterinary officer, Ministry of Agriculture, Fisheries and Food.

■ Mr J.F. Power has been appointed non-executive chairman of MOSS CHEMISTS, Feltham, following the retirement of Mr H.S. Wood.

■ Mr David White has joined ASTAIRE & PARTNERS, stockbrokers, from Shaw & Co where he was an associate member. Astaire & Partners has recently reacquired its business. It was owned by the Credit Lyonnais Group and the LIT Group.

■ Mr Colin J.W. Czapiewski, actuary of Terra Nova, has additionally been appointed a director of TERRA NOVA PENSION TRUSTEE.

■ Mr Adam D. Miller-Smith has been apppointed chairman of GLASS & GLAZING, Eastleigh, succeeding his father Mr Simon C. Miller-Smith who has retired.

■ THE AGRICULTURAL AND FOOD RESEARCH COUNCIL, Swindon, has appointed Professor Tom Blundell as secretary from January 1 for five years. He holds the chair of crystallography at Birkbeck College, London University. He replaces Professor W.D.P. Stewart who has become the *Government's chief* scientific adviser.

■ Dr Mark Kierstan has been appointed director of the LEATHERHEAD FOOD RESEARCH ASSOCIATION. *He was director of research* at Dalgety.

Mr Geoffrey Dickinson *(pictured)* has been appointed managing director of DESIGN FUNKTION (UK), a Swedish *manufacturer of office* furniture. The company is part of the Facit Group, itself owned by the Norwegian company Entranor. Mr Dickinson was managing director of Goodchilds.

UK NEWS

BR to postpone investment as fare income rise falls

By Lynton McLain

BRITISH RAIL yesterday said it had postponed investment costing "hundreds of millions of pounds" to modernise the network because of a "significant fall in the growth of income from rail fares".

The decision comes less than a year after the government approved a £600m increase in BR's investment programme to £3.7bn for the three years to March 1993.

The planned investment was 25 per cent higher in real terms than for the three years to March 1990. Mr Cecil Parkinson, the transport secretary, said after the chancellor of the exchequer's last autumn statement to Parliament in November 1989.

BR said yesterday that discussions between the Treasury and the Transport Department about how much BR can borrow for investment over subsequent years had been completed.

That level is set by the external finance limit, the amount BR can borrow for investment. The new figure will be announced with the autumn statement by Mr John Major, the chancellor, next month.

British Rail said: "We have put some investment plans back but they do not include investments in new trains, which are needed to provide a better, more comfortable service and to reduce the high operating costs of older trains."

It added: "Until we have published our corporate plan, which has to be after the government has set the limits on how much we can borrow for investment, it is not possible to say precisely which investment plans we would like to postpone."

However, it is likely that the bulk of the postponements will fall on station improvements, rather than big programmes such as the planned £750m investment in a new fleet of 155mph passenger trains for the main Inter-City route between London and Glasgow and plans for £700m of new Networker trains for services between Kent and London.

BR said rail plans associated with the Channel tunnel also remained a top priority.

Plans for 'no-frills' budget hotels dropped

By David Churchill, Leisure Industries Correspondent

MARRIOTT HOTELS, the US-owned international hotel chain, has abandoned plans to launch a range of "no-frills", budget hotels in the UK under the Courtyard banner.

Its decision comes in spite of expansion into the mid-market hotel sector by other hotel chains, including Trusthouse Forte, Holiday Inn and the French group Accor.

Marriott had been the first group to develop a budget hotel chain in the US, based on the concept that many business and leisure travellers did not want a full-service hotel with facilities such as room-service and restaurants.

It subsequently opened 150 Courtyard hotels in the US and two years ago said it planned to open 15 in the UK.

An official for the group in London said that "new market research now indicates that our customers in the UK want a full range of facilities".

As a result, any hotels Marriott plans to open in the UK will trade under the company's name and be similar to its existing hotel in central London in offering a normal range of services.

Marriott's move has come as a surprise to hotel analysts and other companies in the sector as budget hotels have been one of the fastest growing parts of the hotel industry. About £80m was spent last year on investment in such hotels.

Faster first class letter deliveries

By Paul Abrahams

FIRST CLASS letter delivery rates improved by 6 per cent between April and June compared with the same period last year, according to the Royal Mail.

It said that more than 83 per cent of first class items were delivered next day during the first three months of the financial year. For local items, representing 35 per cent of the Royal Mail's letter volume, over nine out of 10 letters were delivered next day.

Mr Bill Cockburn, managing director of Royal Mail, said the increase in next-day deliveries followed an improvement of four per cent in the last financial year, the biggest the Royal Mail had ever achieved. He noted that the delivery rate between April and June this year was better than the annual target agreed with Pounc, the statutory Post Office watchdog.

Mr Cockburn said the reintroduction of Sunday collections had played an important part in helping to boost service reliability. He said Sunday collections would mean that about 100m letters would arrive earlier this year.

As part of its plan to improve Sunday collections, he announced the setting up of a hub at Luton airport, with links to nine cities, including Belfast, Manchester, Edinburgh, Southampton, Exeter, Derby, Newcastle and Bristol. Mail will be switched between five chartered aircraft and a fleet of waiting vans.

The Royal Mail has been switching an increasing proportion of its load from railways to aircraft. About 12 per cent of first class letters now travel by air to distant UK regions.

Ulster ferry link to England ends

NORTHERN Ireland's only passenger sea link with England ran its last service last night before closing with the loss of 200 jobs.

Belfast Ferries, which operates the 100-year-old route between Belfast and Liverpool, is closing it because the service is uneconomic. The ferry, the St Colm I, is to be sold.

CBI/FT DISTRIBUTIVE TRADES SURVEY

Motor trade hit hardest by slowdown in spending

By Patrick Harverson

HIGH STREET sales remained subdued last month in the face of the government's high interest rate policy, according to today's Confederation of British Industry/Financial Times distributive trades survey for September, which confirms that the motor trade has been hardest hit by the slowdown in consumer spending.

Mr Nigel Whittaker, chairman of the CBI's survey panel, said: "Retailers continued to achieve only steady year-on-year sales increases in September but trading conditions for motor traders remain especially tough, with motor traders continuing to indicate sales well down on a year ago."

CBI concern about the state of the economy is underlined by a call today from Mr John Banham, the director general, for reforms to the housing market. Mr Banham believes a relaxation of planning requirements to boost house building, an increase in the number of homes available for rent and an end to the treatment of houses as vehicles for speculative investment would restore stability to the housing market and contribute to the fight against inflation.

The CBI/FT survey of 524 companies in retailing, wholesaling and the motor trades was carried out between September 7 and October 3 – before the announcement of sterling's entry into the exchange rate mechanism of the European Monetary System and the cut in base rates to 14 per cent.

Mr Whittaker believes lower interest rates should benefit retailers. He said: "As mortgage rates are reduced over the coming months, consumers will in time be left with more money in their pockets."

Among the 272 retailers polled by the survey, 49 per cent said sales volumes were up last month on a year ago, while 32 per cent said sales were lower compared with September 1989, representing a positive balance of 17 per cent.

Retailers expect similar conditions to prevail this month, with a balance of 19 per cent predicting higher sales.

Within the sector, grocers and clothing shops reported the best year-on-year sales increases during the month. However, sales were down in shops selling footwear and leather goods, durable household items, books and stationery, household textiles, furniture and carpets, and hardware, china and do-it-yourself goods.

Further evidence of how high street retailers are faring in the current tough economic climate will be provided today when the Central Statistical Office publishes the retail sales data for September.

Analysts are expecting the figures to show a slight improvement in sales due to the cooler weather attracting more people into the shops.

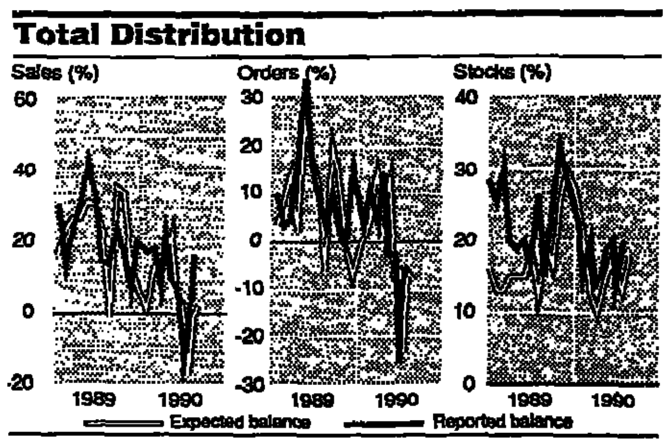
In contrast to the modest, but still positive rates of sales growth in the retailing sector, the picture of demand painted by motor traders is one of unremitting gloom.

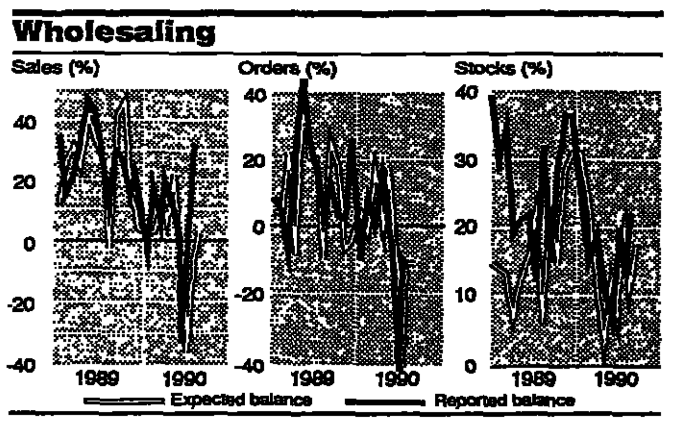
Car sales in September were well down on a year ago, according to the 99 companies surveyed. Seventy-six per cent said sales were lower than in September last year, while only 8 per cent said sales were higher. This negative balance of 68 per cent is the worst ever recorded by the CBI/FT survey.

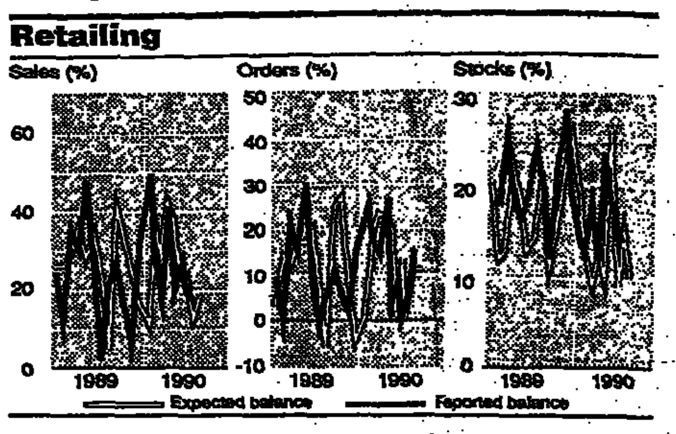
Motor traders are even more pessimistic about October, with 76 per cent expecting sales this month to be lower compared with a year ago and 68 per cent predicting they will place smaller orders with their suppliers this month.

In the wholesaling sector, annual growth in sales volumes picked up in September and sales were reported as good for the time of year. A balance of 32 per cent said the volume of sales was higher than a year ago, the best figure since June 1989. Wholesalers of industrial materials did particularly well during the month.

However, only 2 per cent of wholesalers expect to report annual sales growth in October.







Coopers plans move to new offices

By Vanessa Houlder, Property Correspondent

COOPERS & Lybrand Deloitte, the country's largest accountancy firm, is expected today to pre-let four office blocks, equivalent to 525,000 sq ft of space, in the Ludgate development near St Paul's Cathedral.

Rental levels in the area suggest that Coopers is likely to pay about £48 a sq ft or £25m a year for the accommodation which is due for completion in 1992.

The decision to move all its London offices into one location follows the merger between Coopers & Lybrand and Deloitte Haskins & Sells last year.

The spate of mergers among accountancy firms has helped create an appetite for new offices, which is also fuelled by the need for large open-plan floor spaces and adequate computer facilities.

The Coopers deal will be a relief for Rosehaugh Stanhope, the joint venture company developing the site since it comes at a time when London has more surplus space than ever before.

About 13.7m sq ft of offices – enough to accommodate the workforce of Bristol – are on the market in the City, Holborn and West End, according to Debenham Tewson & Chinnocks, chartered surveyors. New offices account for about 60 per cent of this figure.

The Ludgate scheme, built on land owned by the British Railways Board, involved the removal of the railway viaduct between Blackfriars and Holborn Viaduct stations, restoring a view of St Paul's from Fleet Street that had been obscured since 1866.

Fuel prices contribute to cutback in Ryanair staff

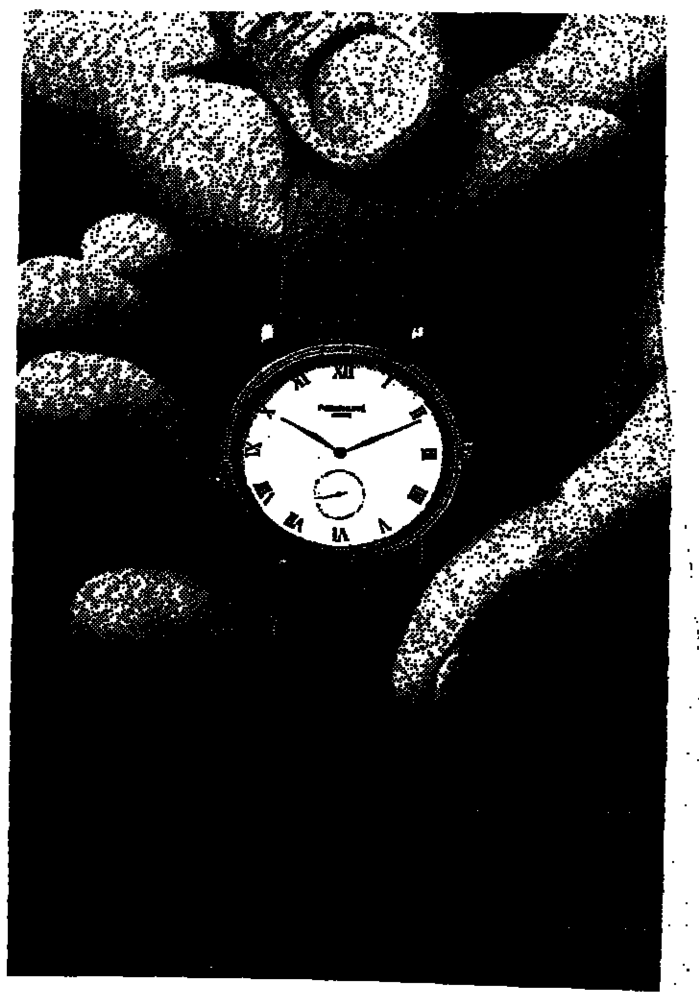
By Kieran Cooke in Dublin.

THE big increases in the price of aviation fuel and the depressed economic conditions in the UK have led Ryanair to reduce staff by nearly 10 per cent. It is also cutting back on some of its services between the Republic of Ireland and the UK.

The Irish independent airline began operations in the mid-1980s, pioneering new routes and reducing air fares across the Irish sea, but it has been dogged by financial problems.

New cost cutting measures include the suspension of the Dublin/Coventry and Knock/Manchester services this winter and a reduction in the frequency of flights between London and the west of the republic.

Ryanair is 90 per cent owned by members of the family of Mr Tony Ryan, the millionaire Irish businessman and head of GPA the aircraft leasing company based at Shannon.



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Securities houses

Hoare Govett completes the circle

The City firm was the first to offer itself for sale before the Big Bang liberalisation; now it is buying itself back. Simon Holberton examines the background to the move

If you were in the business of finance in the 1980s you had to have a securities house, and a fully integrated one at that.

The 1980s was the decade of synergy and one-stop financial shopping. The City of London securities house tried to meet all the needs of investors on the one hand – trading shares, government securities, currencies, and Eurobonds – and of companies on the other, through corporate finance and advisory services.

Securities houses are to the City what 12-metre yachts are to ocean-going yacht racing – the *crème de la crème*. But, by the late 1980s, investing in a securities house came to share another attribute of 12-metre yachting: it was like standing in a cold shower tearing up £50 notes.

A securities business is about as unlike a manufacturing company as anyone would care to name. In management terms, they have very shallow hierarchies with large horizontal layers of opinionated people; everyone is expected to have a view and be able to communicate it to clients. And, because the business is about money, pure and simple, many employees in what might be called middle management roles are acutely profit-sensitive, or at least should be.

But City securities houses have been poor investments because they have been under-managed and over-capitalised businesses operating in an over-supplied market. Margins have been squeezed to airy thinness; profits are non-existent; return on investment is paltry or negative.

Hoare Govett, one of the illustrious names of the City which first sold a slice of itself to Security Pacific, a large US bank, in 1984, is a case in point. Losses generated by the October 1987 stock market crash, and the problems the crash caused for the British Petroleum flotation which followed, were the trigger for SecPac to take its ownership of Hoare Govett to 100 per cent. The final injection of about £12m took SecPac's investment in the firm to £80m.

Peter Voss, a SecPac man sent to the UK from Los Angeles to sort out the mess created by the crash and the BP affair, says that, in purely financial terms, SecPac would have done better putting the money invested in Hoare Govett into 10-year US Treasury bonds. "If I put my analyst's hat on, these businesses have not been well managed and if you look at the history of investment in the firm then it has been a poor investment," he says.

Today, Hoare Govett is trying to break the mould. It hopes, by reverting to a pre-Big Bang mode of ownership – ie where the owners are also managers – that the firm can find a future.

There is a delicious irony here because Hoare Govett was the first City firm to sell an interest in itself in 1984 when the City's regulatory walls began to crumble; now it is the first to buy itself back. In the process it may end up breaking itself but, if it succeeds, it may well prove to be the model for other London securities houses seeking a road to survival.

A "management earn-out" has been put in place to take effect in the New Year. SecPac will revert to owning 49 per cent while Hoare Govett's staff own the majority 51 per cent stake. (A similarly structured deal is being put together for Hoare Govett's businesses in the Far East.)

Of its £70m capital, £10m will be in the form of equity – £5.1m contributed by Hoare Govett's staff and management and £4.9m by Security Pacific – and £60m in the form of preference shares and subordinated debt all of which will be contributed by Security Pacific.

The deal is called an "earn-out" because the staff and management of the reborn Hoare Govett will increase their equity in the company if it makes profits. Retained earnings will be used to pay back the debt capital and the staff will not fully own it until £36m has changed hands. Losses, however, will eat into the equity the employees have stumped up.

For Peter Meinertzhagen, the new chairman of Hoare Govett and a man who has been associated with the firm for 25 years, the rationale for the ownership change is simple. "Securities businesses do not work well when 100 per cent owned [by a bank]," he says. "It is a people business. The risks are high and it is better if people make those judgments when it's their money and necks on the line. I don't believe that the way banks look at risk and the way we look at risk is the same."

Voss, who was sent to Britain to inject management discipline into an ailing operation, agrees and is himself making a "make or break" commitment to the firm. With the "earn-out" he has effectively separated himself from SecPac. If Hoare Govett fails he has no guaranteed return ticket to Los Angeles.

The Hoare Govett buy-out is part of a larger shake-up of SecPac's securities operations. By the beginning of last year SecPac was reconsidering its involvement in the securities business worldwide. In addition to Hoare Govett, it had bought significant interests in Burns Fry, Canada's leading stockbroker and McIntosh, one of Australia's big stockbrokers.

In May 1989, the top executives of SecPac in Los Angeles together with the senior executives from the three brokerage houses met in Palm Springs to discuss the future of SecPac's involvement in the securities business.

"The question was how to maximise SecPac's investment in securities," says Voss. "SecPac needed access to world markets but did it need to own the brokerage houses fully? We sat down and asked what made the securities industry tick. One thing that came out was 'significant ownership' by managers and employees. SecPac said: 'If we don't need to have a majority of ownership, and you think significant ownership is important, then is that a formula that can work?' There is a risk that it won't go well for all shareholders. We'll try it."

What has subsequently been created is Security Pacific Alliance, a company that will own a 49 per cent interest in the two Hoare Govett brokerage houses and the Canadian and Australian brokerage businesses. When the US regulatory environment changes to permit US commercial banks to conduct investment banking activities, it will be the vehicle through which SecPac enters its home market.

In doing this, however, SecPac has made local management responsible for its own survival. Both Meinertzhagen and Voss speak of the need for fundamental change in the way Hoare Govett will have to operate if it is to survive. Voss talks a lot about the need for "hands on" management, of knowing "what your people are up to and about".

Peter Voss and Peter Meinertzhagen: collective effort will win the day

"There will be more structure than was present historically," he says. And he promises more meetings, more sharing of information, and inculcating in staff a strong understanding of risk and profit.

Although he recognises that a securities house is a collection of strong individual personalities, Voss wants to see fewer stars and more team players. "We would like this firm not to have a star system, but to have many good salesmen and corporate finance people that relate well internally and externally. No one person can be bigger than the firm."

Meinertzhagen thinks the current parlous state of the securities industry and the equity incentive that is being offered to staff will be mutually reinforcing. The uncertain state of the industry will mean that analysts, traders and salesmen will be less likely to leave, while the potential financial benefits that may flow from ownership will encourage people to stay, he believes.

"If we are all shareholders then they'll have to think twice about rocking the boat. However much freedom they have in their respective sectors they'll realise that it is collective effort that will win the day. But you can't legislate against a maverick."

Their most difficult task, however, may turn out to be winning the support of employees on remuneration. At the beginning of next year, when Hoare Govett is set free, it will start off in the black. To maintain that state of affairs, controlling costs, especially payroll, is seen to be essential. "We don't want to see a strong growth in the salary line," says Voss.

This means rethinking the current bonus structure – bonuses are paid on a division-by-division basis – and, initially at least, possibly doing away with them. Both Voss and Meinertzhagen have a bias towards profits being ploughed back into the firm and employees receiving their bonus through an increase in the value of their equity.

"We have got to remain competitive on remuneration," says Meinertzhagen. "But in general the City has been over-rewarding itself. We have to be prepared to reward ourselves when successful and expect less if we are not. But whether we distribute via cash or retention will be based on a judgment of the market at the time. In the process of earn-out we will tend to be more retentive than pay bonuses."

Come the New Year, Hoare Govett will have many watching it. Along with the good wishes Meinertzhagen has received, many have inquired how its buy-back was done. If Hoare Govett can make it work, others may follow.

Hoare Govett will have £70m to support its business, but that is that; there will be no top-ups. Depending on which way the chips fall, the Hoare Govett buy-out will have proved to be either the end game or the beginning.

A longing for long-termism

It is generally recognised that for the first time in more than a decade the Labour party has a real chance of winning power at the next election, due before June 1992. Gordon Brown, shadow trade secretary, is working on Labour's industry policy, part of which is expected to address the issue of company takeovers and "short-termism".

In an attempt to give some guidance to Brown, the Institute of Public Policy Research, a self-styled "influential left-of-centre think-tank", has published three essays on the topic.* Few of the recommendations proposed by its authors are original, but they may influence an incoming Labour government.

The authors start from the shared belief that there has been an excessive amount of company takeovers in Britain in the 1970s and 1980s. Moreover, these takeovers have been of dubious value to the efficient operation of the British economy; their influence has made managers of those companies which have so far escaped takeover focus on short-term profit optimisation at the expense of the long-term development of UK industry. Britain's company law and accounting systems have encouraged these tendencies.

The authors – three Cambridge academics, a City accountant, and a City journalist – believe that by changing the legal framework in which companies act, short-termism can be transformed to a beneficial long-termism. Their agenda for change is:

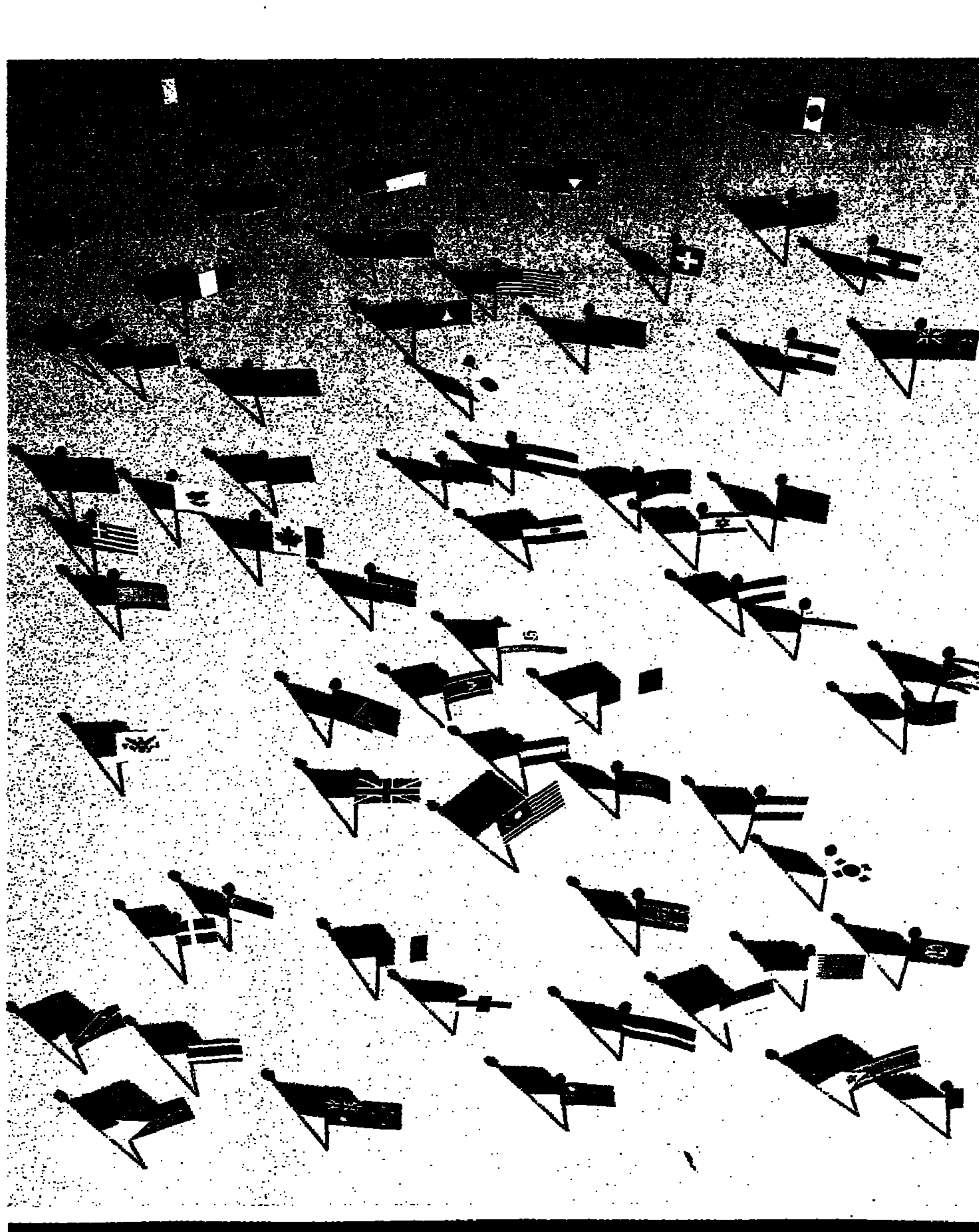
- Slowing down the takeover process. Taking heart from various state laws in the US, the authors advocate "throwing some sand" into the market for corporate control. Recommended ways of doing this include: automatic referral of all takeover bids above a certain size to the Monopolies and Mergers Commission; in contested bids, the bidder would have to prove the bid was in the public interest; changing the basis of referral to the MMC to include economic efficiency as well as competition; change the basis of voting rights attaching to shares so that where one per cent or more of a company is bought the directors of the company can exercise voting rights for the first year of purchase.
- Penalise "short-term" investors and encourage long term ones. There should be tax incentives and penalties on share transactions to encourage institutional investors to take a long-term view of their holdings. Institutions should also be encouraged to act together and pool some of their funds for promoting industrial investment and innovation.
- Regulate accounting practices. Accounting standards should have statutory force and be issued by the Secretary of State for Trade and Industry. There should be a director general of accounting and auditing who would oversee the Accounting Standards Board and the Auditing Practices Committee.
- Change company law to recognise interests other than those of shareholders. The duties to society of a public company are recognised on the Continent; Britain lags behind these countries. Limited liability in a joint stock company is a privilege granted by the state. There is no reason why the state should not impose certain public obligations on the company and require its shareholders to share power with other relevant groups.

The IPPR pamphlet seeks a legal redress for the perceived excesses of the City. But its authors are far too sympathetic towards incumbent management; they pay far too little attention to ways in which British management can be made better and hence more bid-proof. They lack ideas for bridging the gulf between management and ownership, aside from recourse to legislation.

Finally, they mix a naive belief in the ability of the law to legislate goodness with an equally naive support for the manager – whom they characterise as being forced to be short-termist against his long-termist inclinations.

**Takeovers and Short-termism in the UK, Andy Cosh, Alan Hughes, Ajit Singh; James Carty; John Plender. IPPR, 18 Buckingham Gate, London SW1E 6LB. £7.50.*

Simon Holberton



CONSTRUCTION CONTRACTS

Axminster by-pass project

RENDEL PALMER & TRITTON is carrying out the site supervision contract on the 2.7 mile Axminster southern by-pass on the A35 in Devon. Construction of the £8m road has begun and is due for completion in autumn 1991. *The contractor is the Farr Group.* The by-pass is a single carriageway road, but for nearly half its length has a climbing lane for eastbound heavy vehicles. It will have seven bridges.

★★★

Proposals for the Elland Road Stadium, Leeds, have been announced by the Leeds City Council. A decaying East Stand and a reduction in crowd capacity has prompted Leeds City Council to commission LOVELL LEISURE to prepare plans for improving and updating the stadium, at the same time increasing the capacity to an all-seat 40,000.

Housing for London

Work has started on the construction of the first of 280 *homes on the site of the former* Newham Maternity Hospital in Forest Gate, east London.

Brentwood-based COUNTRYSIDE PROPERTIES is developing the 12 acre site in conjunction with three housing associations, East London Housing Association, London & Quadrant Housing Trust and Boleyn & Forest Housing Society to provide a mixture of housing for sale, for rent and for shared ownership.

Following commencement of the first phase which will provide 25 homes for shared ownership, further phases will follow in close succession, and the whole development is due to be completed in late 1992. The total contract value is about £11m.

The redevelopment of the former hospital follows lengthy negotiations, successfully concluded earlier this year, between the housing associations, Newham Council and the Health Authority.

As a result, the former redundant hospital premises have now been demolished to allow the new development to start.

The homes will provide a variety of accommodation from one and two-bedroom flats to two, three, four and five-bedroom houses.

In addition there will be specialist accommodation for the disabled, a resources centre for the local health authority and, in the centre of the site, a new local park.

Swindon office scheme

Contracts totalling over £16m have been won in the south and west by ERNEST IRELAND CONSTRUCTION of Bath, a member of the Mowlem Group.

Swindon office contracts include a £5.1m office development at West Lea Down for property developers Maple Oak. Of steel-frame construction with brick infill and a pitched roof, it will provide 66,000 sq ft of office space with parking for 259 cars.

At Bradley Stoke, near Bristol, the company has started work on a £3.7m contract to construct seven office blocks for Conder Developments. Construction will be steel frame with pre-cast concrete floor units, clad with concrete blocks and having concrete tiled roofs and aluminium windows.

The Bournemouth office has been awarded a £2.4m design and construct contract at Hurn Airport by the Civil Aviation *Authority for two classroom* and office blocks adjacent to the National Air Traffic Services complex.

Major business park development

M.J. GLEESON GROUP has started construction adjacent to the M23 motorway near Gatwick Airport of the £11.3m development *(pictured)* of a 27 acre business park by Vanson Developments – property arm of Mr Richard Branson's Virgin Group. To be known as "Accord - Crawley Business Quarter", the scheme is being funded by the Prudential Assurance Company and comprises 12,500 sq metres of high specification air-conditioned offices in two three-storey blocks with connecting link. Each block will have its own landscaped courtyard.

New offices for Essex local authority

COSTAIN CONSTRUCTION, a subsidiary of Costain E & C, has been awarded a £12.9m contract by Thurrock Borough Council to extend its current civic offices.

The five-storey building, to be built on the site of the car *park, will incorporate three* levels of underground car parking for about 160 vehicles.

Built with an in-situ reinforced concrete frame, with concrete and piled foundations, the materials used will match those in the civic building.

Curtain walling will be a feature of the top floors and the link to the existing offices, to reduce the mass of the building and *to allow it to blend into* the local area.

The 15,000 sq metres of offices will be finished to a high standard with air conditioning, double glazing, and raised access floors. Work is due to be completed in June 1992.

Jalal Costain WLL, a subsidiary of Costain Group, has been awarded a £7.36m contract by Aluminium Bahrain (ALBA) to undertake pot room concrete work for the "Potline 4" expansion of the plant.

LEGAL COLUMN

Move to reform provisions against share assistance

By Robert Rice, Legal Correspondent

LEGISLATION prohibiting companies from providing financial assistance for the purchase of their own shares has been around since 1928. In *its present form*, set out in section 151 of the 1985 Companies Act, it has more than once demonstrated how difficult it is to apply in practice.

Has the time come to think again about the law which in its previous form, section 54 of the Companies Act 1948, was described by the 1962 Jenkins committee as "an occasional embarrassment to the honest without being a serious inconvenience to the unscrupulous"?

In the view of the Law Society's influential standing committee on company law, chaired by Mr Bill Knight of City solicitors Simmons & Simmons, the answer is "yes". In a paper sent to the Department of Trade and Industry with the support of the Bar Council, the committee has put forward *recommendations for changes* in the law which are designed both to clear up some of its present uncertainties and to reduce its scope for more than occasionally embarrassing the honest, while at the same time maintaining its basic purpose.

Among the committee's main recommendations for change are:

- Consideration of de-criminalising section 151 and replacing the criminal sanction with a civil sanction which gives the courts the power to order *any person* involved in a breach of the section to make a contribution to the company's assets in compensation.
- No "financial assistance" which is not prohibited by the EC second company law directive should be prohibited under English law if it does not materially reduce the net assets of the company giving the financial assistance. (The second directive which applies only to public companies prohibits them from advancing funds, making loans or providing security "with a view" to the acquisition of its shares by a third party.)
- What amounts to a "material reduction" in net assets should be clearly defined in percentage terms (the committee suggests somewhere between 2 per cent and 4 per cent).
- Any transaction the predominant purpose of which is to benefit the company should not constitute financial assistance so far as permitted by the EC directive.
- The position of third parties should be clarified so that their rights are not affected unless it can be shown that they either knew or ought to have known that the company offering financial assistance was acting in breach of the law.

The thinking behind the recommendation for de-criminalisation of section 151 stems from experience of difficulties in using criminal sanctions to deal with a whole range of actions in other areas of company law, combined with the fact that the second directive does not require the prohibition *against* the provision of financial assistance to be backed by criminal sanctions.

Difficulties have arisen in prosecuting under section 151

The committee cites the new provision in the Insolvency Act *of 1986*, which deals with wrongful trading by imposing civil liability to pay compensation, supplementing the criminal sanction in the 1985 Companies Act. This, *it says, is* as an example of a measure which was introduced because the standard of proof applied in criminal, fraudulent trading cases was rarely met. The law was tough, it says, but could rarely be enforced.

Similar difficulties *have* arisen in terms of prosecuting under section 151 and the committee suggests that a similar approach to that taken over wrongful trading could be the answer.

If section 151 was de-criminalised it would be necessary to sort out who would be entitled to bring a civil action on behalf of the company – and, also, whether the general criminal law was sufficient to back up a civil sanction in cases involving fraud – or whether a new specific offence would need to be created for that purpose.

Certainly the combination of civil and criminal sanctions has its attractions, particularly in view of the apparent difficulties *experienced in bringing* successful prosecutions under section 151.

However, rather as the government dismissed, almost out-of-hand, *recent calls for the* introduction of civil remedies to supplement criminal sanctions in the fight against insider trading, it is hard to see *it accepting this recommendation* in the current climate.

The committee has not recommended repeal of section 151 (and sections 152 to 158 which interpret and provide the specific exceptions to it) largely, it seems, because it *would* be impracticable now that the law is rooted in the second directive which has been implemented in all EC states except Spain.

The committee also feels that the section serves a useful purpose, particularly in takeovers. *It says that all too often* the interests of target companies can be sacrificed to those *of the bidder company by the* new owner using its controlling interest to reduce the target's assets *for its own benefit.*

However, if it does not recommend repeal it certainly appears to advocate going as far as possible down the road towards reducing the scope of the section as it is possible to, short of outright abolition.

Extension of "whitewash" procedure recommended

Were it not for the second directive the committee would, for example, recommend that the so called "whitewash" procedure available under section 155 should be available in all cases for public companies as well as private ones, so that in a case where no provision had to be made, the financial assistance would be permissible if approved by special resolution and the directors of the company made a requisite statutory declaration of solvency.

The "whitewash" procedure under section 155 applies to private companies only. It allows them to provide financial assistance without being caught by section 151 only where the net assets of the company are not reduced by the financial assistance or, to the extent that they are, the assistance is provided out of distributable profits.

Because the second directive applies only to public companies, and does not envisage any sort of whitewash procedure, section 155 has to be confined to private companies and *cannot apply to all companies.*

However, the directive is narrower than section 151. For example, the definition of financial assistance in section 152 prohibits certain types of transactions – gifts, guarantees, the provision of security or indemnity and loan or certain credit and "other agreements". Other sorts of financial assistance are prohibited only if they reduce the net *assets of the company to a* "material extent" (which is undefined). The directive catches only financial assistance in the form of the advance of funds, loans or provision of security.

The committee therefore has room to recommend reform in cases which fall outside the narrow terms of the directive – cases involving private companies; cases involving financial assistance which takes a form other than the advance of funds, loans or the provision of security; and cases involving financial assistance not given "with a view to the acquisition of shares by a third party".

Thus, it recommends extension of the "whitewash" procedure to all cases of financial assistance not prohibited by *the directive* and that no financial assistance which is not prohibited by the directive should be prohibited by section 151, if it would not result in a material *reduction in* the net assets of the company giving the assistance.

The committee makes a strong case for reform particularly when the section 151 prohibition is held up for comparison with the much narrower *laws operating in other EC* member states. However, whether it is strong enough to embarrass the government into doing something about it is very much open to doubt.

FINANCIAL TIMES SURVEY

URUGUAY

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Monday October 15 1990

A consensus on the open economy has yet to emerge in Uruguay, a country tentatively treading the free market path. **John Barham** reports that if Uruguay can make the transition, with a minimum of dislocation, it will once more be an example to Latin America

Time is ripe for reforms

The Parliament building

URUGUAY is entering a phase of decisive change. It restored civilian rule in 1985. Now it is beginning to reform its economy, treading the same free market path taken by so many of South America's debt-burdened nations. But unlike its neighbours, a free market consensus has yet to emerge in Uruguay.

President Luis Alberto Lacalle's proposals for reshaping Uruguayan society face growing opposition.

He took office in March and has faced constant harassment by the country's powerful trade unions and rising restiveness in congress, where his conservative government holds a shaky majority. As elsewhere in the Latin America, the effort of adapting to a new, less comfortable but possibly far more rewarding, economic system will dominate the political, business, and social scene in Uruguay over the coming years.

In few other countries will the shock of breaking with the past be more traumatic. Uruguay has developed into a complacent society. It was the first country to create a cradle-to-grave welfare state. Although poverty is worsening, Uruguay does not suffer mass destitution as its neighbours do. But Uruguay gradually dissipated its wealth.

Montevideo's once-elegant Avenida 18 de Julio is cluttered with stalls run by the jobless or underemployed selling knick-knacks, souvenirs and sweets. Montevideo, once a glittering capital has become a dowdy city of crumbling buildings, deserted factories and spreading shanty towns. A foreign observer pointed out: "Uruguay is a nation grown lethargic, the consequence of a relatively easy way of earning a living."

Agriculture – the source of Uruguay's easy wealth – ceased long ago to provide a sufficient base for the state-controlled economy. The crumbling welfare system absorbs all the government's tax revenues. Yet one in every three working Uruguayans still draws a meagre government wage.

Many Uruguayans, including President Lacalle, like to recite the findings of a recent opinion poll that neatly summarised the Uruguayan character. Asked whether public services are satisfactory, most people said "no". Asked whether a private company would do the job better, they answered "yes". But they said "no" when asked if they favoured privatisation.

The engaging, even-tempered and well-educated Uruguayans are an innately cautious people.

They share Scandinavian values of consensus and egalitarianism that are an example to other South Americans. They are deeply suspicious of private enterprise and the profit motive. They refuse to face the fact that their way old life is literally bankrupt.

Mr Conrado Hughes, planning and budget minister, said: "We are an egalitarian society and that's very good, but on the other hand, we do not reward effort."

Mr Hughes says Uruguay has grown to accept mediocrity as the price of social justice. As an example, he says that in 1928, government ministers earned 22 times more than a doorman. However, today, Uruguay has gone to the opposite extreme: a minister only earns four times more than a doorman.

Hordes of idle flunkeys are a common sight in Uruguayan public buildings, living evidence of efforts by past governments to mask unemployment with token jobs. This is the country that President Lacalle wants to shake up and transform into the nerve centre of South America.

He imagines Montevideo's fine harbour, close to the confluence of the the mighty rivers Uruguay and Parana that drain the continent's vast interior, becoming a Rotterdam. The city's financial industry would make it a Zurich.

President Lacalle is pushing hard for Montevideo to become headquarters of the common market that Brazil, Argentina, Uruguay and Paraguay are planning to build. The end of protectionism and the all-embracing public sector, ministers enthuse, will reinvigorate Uruguayans' latent entrepreneurialism, transforming the country from a rural backwater into a dynamic, technology-driven capitalist state.

Although it is highly improbable that the government's wishes will ever be completely fulfilled, like it or not, Uruguay must adapt to free markets, if only because the fortunes of Brazil and Argentina affect it so directly.

This tiny nation, created to separate South America's two largest countries, has a population of just 3m people and a gross national product of $8.6bn.

That makes it one of the smallest – and wealthiest countries – in South America, with average per capita income of almost $2,900. Uruguay is becoming a nation of old people – 20 per cent of the population is over 30 years old and 5 per cent is over 65.

Its low birth rate does not make up for the thousands of people who emigrate every year; about 10-20 per cent of Uruguayans live abroad. There are few opportunities for them, because the country is literally spending its capital, rather investing it productively to create new wealth.

Mr Lacalle wants Uruguayans, accustomed to the slow but sure pace of life in their stiflingly regulated society, to stop being bureaucrats and become businessmen.

There are signs of change. A growing number of companies have seen the light and are struggling to prepare for the day when they must face real competition from overseas for the first time in a generation.

Even leaders of the militant PIT-CNT labour confederation accept that new technologies must be introduced.

They even recognise that new machinery can create more wealth and more jobs, rather than enable companies to fire workers. Anecdotal evidence suggests that more young Uruguayans are staying in the country and going into business.

Their fathers may have been confronting the military on the streets 20 years ago, but many of today's teenagers dream of making it rich rather than struggling for national liberation.

In 1973, political violence caused the collapse of constitutional rule. A murderous military dictatorship ruled Uruguay for the next 12 years. The regime exploded the myth that Uruguay was the Switzerland of South America – a country immune to the violent politics of the region.

However, Uruguay has successfully overcome the bitter hatreds of those years.

Observers still say that the peaceable, honest and sincere Uruguayans are proof that Latin America can rightfully aspire to being more than a land of corrupt and brutal republics.

In most countries, adjustment to free markets is causing immense suffering and deprivation.

If Uruguay can make the transition to an open economy with a minimum of social dislocation, it will once again, be an example to the rest of Latin America.

IN THIS SURVEY

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John Barham looks at moves to make the economy more efficient

Inflation poses main threat

RATHER than being remembered as the Switzerland of South America, the government wants to make Uruguay the continent's Singapore.

To prosper, ministers say, Uruguay must become a streamlined economy that can thrive on sheer efficiency. It is too small to be anything but a niche economy, providing sophisticated services and high-quality, high-cost products to its big neighbours, Brazil and Argentina. But Uruguay has two handicaps: an unbearably inefficient public sector, and a cultural aversion to risk-taking.

Inflation is the government's immediate challenge. Prices are rising at over 10 per cent a month.

During his first months in office, President Luis Alberto Lacalle decisively attacked inflation by almost halving the government's budget deficit to 3.5 per cent of gross domestic product. But he ruined that achievement by trying to increase exports with a lower exchange rate. He did that by printing money.

Galloping inflation has forced the government to gradually raise real wages. It conceded wage indexing, a practice that accelerates inflation. Uruguay imports all its oil and rocketing oil prices are increasing inflationary pressures.

FOREIGN TRADE ($m)	Exports	Imports	Balance
1986	1,087	833	255
1987	1,191	1,123	68
1988	1,395	1,152	242
1989	1,597	1,238	358
1990*	771	597	174

* First half

Source: Director General of Foreign Trade

The Central Bank has stopped printing money and now hopes to see inflation falling to an annual rate of 35-40 per cent in the final quarter.

The squeeze has dashed hopes for export-led growth, although officials speak of a 1 per cent expansion this year. Last year, the economy grew by 1.5 per cent, with GDP reaching $8.6bn.

Uruguay did not succeed in maintaining the momentum of strong growth in 1986-7, when the economy grew by 14 per cent. Expansion was achieved by using spare capacity, rather than through new investments. The investment rate is lower than in sub-Saharan Africa. Investment is put at 10 per cent of GDP, less than the rate of depreciation. That means Uruguay is consuming, rather than investing, its capital.

Mr Michele Santo, a senior Central Bank adviser, said Uruguay has not seen a large investment wave since 1982, when the Latin debt crisis erupted. Little wonder that the value added by Uruguayan industry over the past 30 years has shown little growth.

Between 1960-88, value added by manufacturing rose by only 40 per cent, one of the lowest rates in Latin America. However, value added by the service sector has grown by 268 per cent in the same period, slightly faster than the average for Latin America.

Officials are confident that their orthodox policies will soon bring inflation down and revive the dormant economy. They expect public sector reforms, a foreign debt reduction package and lower import duties will soon set off a virtuous circle of rising investments and improving economic efficiency.

However, they have avoided setting targets or deadlines for their policies to bear fruit. Much depends on the outcome of negotiations with the trade unions and opposition parties.

The government's gradualist policies are irking officials. Mr Agustin de Urtubey, Central Bank vice-president said: "It's an illusion negotiating a pact with the unions. If you want reforms, you have to forget consensus."

Mr Conrado Hughes, budget and planning minister, says the reforms will "take for ever if we wait for a change of mentality".

Close to one-third of the Uruguayan labour force is employed in the public sector. Its inefficiency and the high cost of government services such as electricity and telecommunications, make Uruguayan companies uncompetitive abroad.

Tariffs of 40 per cent mean companies do not need to export, because they are guaranteed fat profits in the domestic market.

Mr Roberto Vitale, a manager at FUNSA, a tyre manufacturer and Uruguay's largest private company, said: "Exports are not very profitable. The export market gives a 3 per cent sales margin, but local sales give us a 12 per cent margin."

FUNSA was founded in 1935 and has annual sales of $58.6m with exports worth some $19m. Other manufacturers operate on a similar basis, producing expensive goods with imported raw materials for a small market. The government is reducing tariffs to 20 per cent by 1994. It has rescinded export subsidies and raised utilities sharply.

Foreign trade is equivalent to 30 per cent of GDP. Although that is an impressive figure by Latin American standards, agricultural products, principally beef and wool, still account for 85 per cent of exports, even though agriculture accounts for only 17 per cent of GDP.

Uruguayan companies recognise that they must become more aggressive and far more efficient to compete with rivals who have the advantage of a stronger home base. That will not be easy.

Some companies are preparing for the future. Mr Rodolfo Uhrin, general manager of Armco Uruguaya SA, a US-owned specialist steelmill, said: "We can charge higher prices because we occupy a niche by supplying small orders quickly. Our strength is service."

Armco has invested $2.6m in the last 4 years – twice the rate of depreciation. Argentina and Brazil are two important markets for Uruguay and stability in both countries would benefit Uruguayan companies.

"Stability there would be great for us. It's not just the greater volumes we could sell. Stability and continuity are important, to enable companies to plan," said Mr Uhrin.

Uruguay, Brazil, Argentina and Paraguay are planning greater economic integration. They intend to form a free trade zone by gradually eliminating all tariffs on bilateral trade by the end of 1994, marking the end of their damaging import-substitution polices.

The final objective is a common market with free circulation of goods, capital and labour.

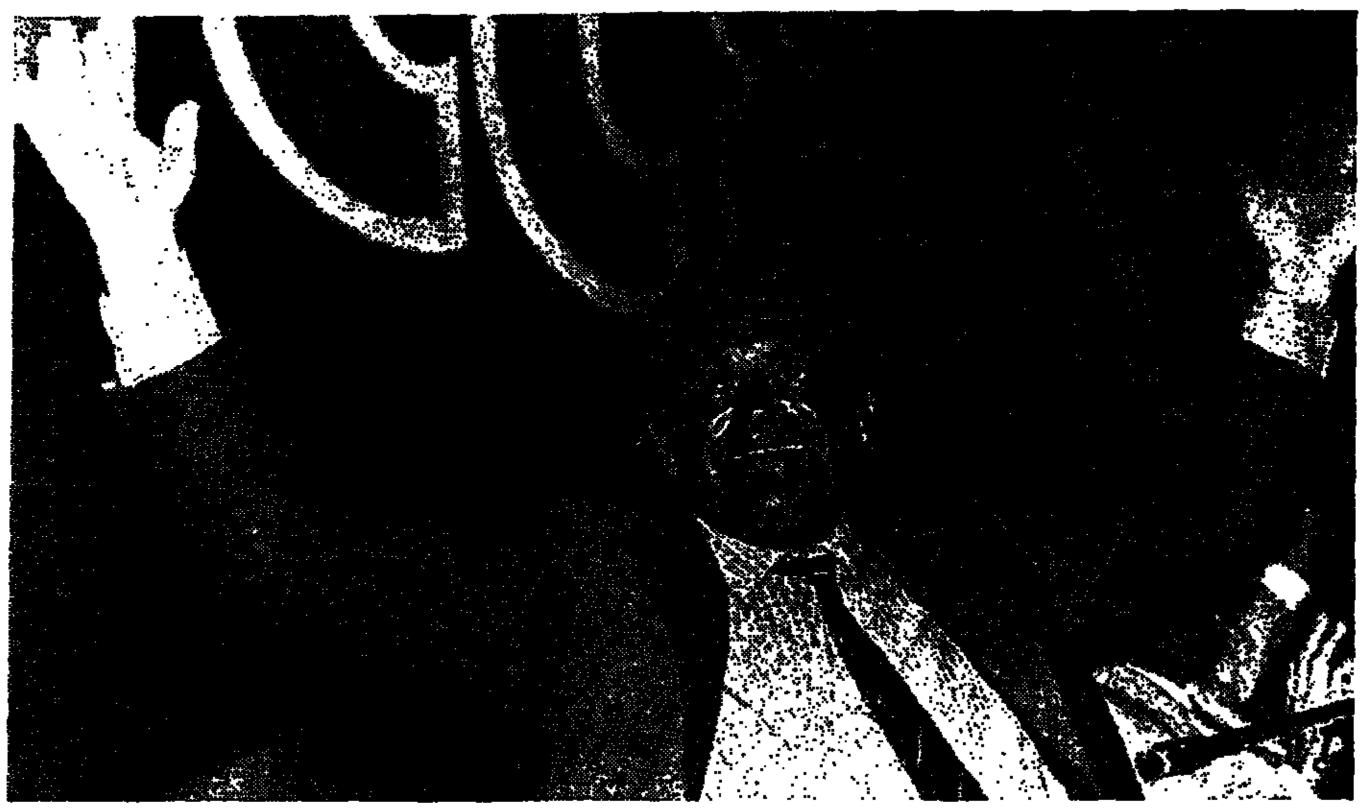
However, Uruguayan businessmen still view integration with considerable scepticism, if not alarm.

Uruguay sells 32 per cent of its exports in Brazil and 8 per cent in Argentina, so it has little choice but to join in. While Uruguay is at risk of being overrun by cheaper imports, it could win important economies of scale if it could increase sales to its neighbours.

Consumer price index % change 1989-90		12 months
1989		
Jan	4.1	89.5
Feb	6.4	73.8
March	7.0	77.5
April	5.2	78.1
May	2.9	79.2
June	7.8	83.5
July	6.9	78.2
Aug	4.4	81.0
Sep	4.9	82.2
Oct	7.3	82.5
Nov	4.1	81.9
Dec	5.8	89.2
1990		
Jan	5.1	91.0
Feb	6.9	91.8
March	9.0	95.4
April	7.0	98.7
May	5.6	103.8
June	9.6	107.8

PROFILE: PRESIDENT LACALLE

Self-styled moderate radical



President Lacalle: steeped in a patrician family's tradition of political involvement

PRESIDENT Luis Alberto Lacalle paces his office like a caged animal. Speaking in rapid, excellent English, he says: "I have been preparing for this job all my life. But it is far more complicated than I thought it would be. I guess it's the same in most countries – you have to take care of many things and keep many balls in the air at the same time."

Mr Lacalle, 49, is an impish man bursting with energy. He is now in his eighth month as president of Uruguay. If Mr Lacalle could change his country through sheer will power and expenditure of energy alone, Uruguay would be transformed beyond recognition by now.

However, as he is the first to recognise, reform requires long and frustrating negotiations. Appropriately, he calls his policies "moderately radical" – a delightfully Uruguayan turn of phrase.

Mr Lacalle is steeped in a patrician family's tradition of political involvement which he traces back to the struggle for independence. His maternal grandfather Luis Alberto de Herrera led the Blanco party for half a century and served as a member of Uruguay's formerly collegiate presidency.

Mr Lacalle is an unrepentant anglophile, a family tradition that goes back four generations. With a grin, he says: "We were brought up the English way. We are 100 per cent Spanish, with a touch of PG Wodehouse."

Mr Lacalle is an unrepentant anglophile, a family tradition that goes back four generations

Mr Lacalle is a lawyer, trained at the University of Montevideo. He raises Hereford cattle at his farm in the interior. But politics has always come first. The ambitious Mr Lacalle always wanted to be president. He says "I have been in politics for 31 years and I have had this idea of being president for 31 years. No one else had the pluck to fight for it like I did."

Mr Lacalle joined the Blanco party when he was a teenager and was first elected to Congress in 1971. But he spent little time in Congress. In 1973, the military-dominated government closed Congress and suppressed all opposition. The military briefly detained Mr Lacalle, along with hundreds of other political prisoners.

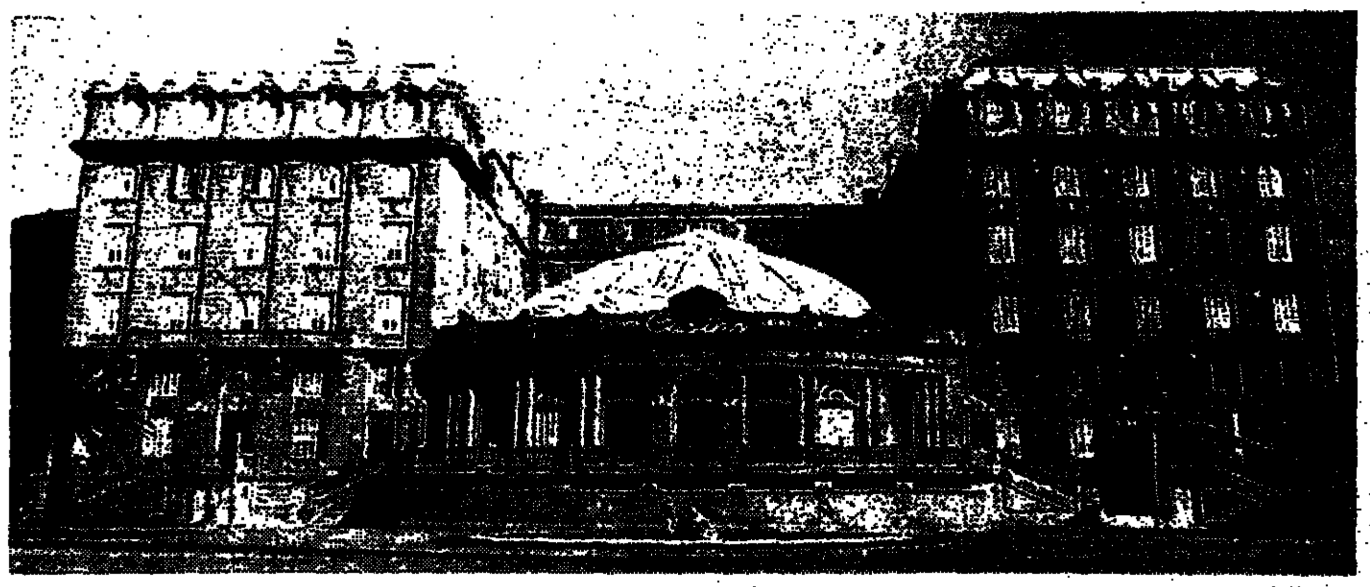
Like presidents Carlos Menem of Argentina and Fernando Collor de Mello of Brazil, Mr Lacalle wants to make his country part of the world economy by sweeping away protectionism and an overgrown public sector.

But unlike his colleagues in Brazil and Argentina, Mr Lacalle is attempting to introduce change gradually, rather than through economic shock policies. "We are different from other South American countries. My initiatives are far-reaching, but they are dealt with and legislated with a sense of unity and not confrontation."

Mr Lacalle's critics charge that he has still not settled down in his new job.

"Lacalle has been a politician all his life. He's not used to being in an executive position. When you're a senator, nobody cares much when you contradict yourself twice in the same day. But people do begin to notice when the president contradicts himself," says the editor of a leading Uruguayan newspaper.

John Barham



Hotel Casino, Carrasco, Montevideo

TOURISM

Waiting for the Europeans

PUNTA del Este is expecting a bumper crop of Argentine tourists next season. With the revaluation of the austral, Argentines will have loads of cheap dollars to spend abroad when their summer break begins in December. Thousands of them will descend on this Uruguayan resort – a peninsula that juts out into the sea where the River Plate ends and the Atlantic Ocean begins.

Punta del Este has long been a playground for the Argentine rich. Spending January here is a "must" in their social calendar. They arrive in private jets or ocean-faring yachts and head for summer homes in the exclusive San Rafael district. There are villas that would not look out of place on Sunset Boulevard, complete with manicured lawns, tennis courts and swimming pools.

Alternatively, they may choose to rent an apartment on the peninsula, close to the exclusive yacht club (founded 1924, members only). A luxury three-bedroom flat with oceanic views will set them back about $16,000. Television starlets will be much in evidence – usually in the Hotel de La Capilla in San Rafael.

In true Argentine fashion, ostentation is the name of the game. If you've got it, you flaunt it, and if you don't, you pretend you have. Socialites vie with one another to see who can throw the most outrageous party. European nobility is much in demand. They gamble the night away in the Casino on Gortari Avenue, or dance at Las Grutas, a cave with a translucent dance floor built above the sea.

During the day, there are kilometres of golden beaches to choose from. Punta del Este is one of the few places in Latin America where topless sunbathing is tolerated.

However, the growth of mass tourism in recent years has transformed Punta del Este into a strange hybrid: part Palm Beach, part Torremolinos. The well-heeled complain loudly about the camping sites that have begun to mushroom on the fringes of San Rafael, even though these are well concealed behind forests of pine and eucalyptus.

The Uruguayans, who are probably the most discreet and self-effacing people in Latin America, watch this annual ritual with a mixture of horror and fascination. A weekly television show screened from Punta del Este brings them the latest glitterati gossip, scandals, arrivals and departures, strategic camera shots of the smallest bikinis, and the party of the week.

Even though Uruguayans have little, if anything, in common with their brethren across the River Plate, they endure the annual invasion from Argentina because tourism is the second biggest money spinner in the country after agriculture. Uruguay earned $227m from tourism last year, the equivalent of 14 per cent of its total exports. Of the 1.2m visitors in 1989, 80 per cent were Argentine.

Because Argentina's economic fortunes fluctuate widely, so do those of the Uruguayan tourist industry. A low austral or recession in Argentina spells disaster in Punta del Este, and the converse is also true.

So Uruguay is trying to break its dependence on the Argentine market, as well as encouraging visitors to come outside the peak December-March season.

Dr Amadeo Ottati, Uruguay's deputy tourism minister, is working hard to insert Uruguay into the Latin American travel circuit of Europeans and Americans. "The problem is that we have few direct flights to Europe or the US, so travellers tend to pass us by." He is negotiating a Latin American flight pass with eight other countries in the region, which may encourage a globetrotter to take a look at Montevideo or Punta del Este.

Dr Ottati believes there is great potential in the country's health spas, centred around the thermal springs of Salto and Paysandu in the north. He is promoting what he calls "ranching tourism". This appears to be aimed at the hunting, shooting and fishing fraternity. They are generally accommodated in luxurious countryside estates. Here, apart from watching Wild West rodeos and gauchos branding cattle, they can go hunting, shooting and fishing.

One thing that depresses Dr Ottati is the lack of a five-star hotel in Uruguay. However, he hopes this situation will soon be redressed. The four-star Victoria Plaza in Montevideo, owned by the Unification Church, is building an extension, and there is at least one foreign hotel chain, reportedly Brazilian, which is interested in building a five-star hotel and conference complex.

Leslie Crawford

John Barham reviews the political scene where a strong left-wing party has emerged

Open economy plan widens the divisions

FOR A nation that craves consensus as deeply as Uruguay, its politics are a strange affair. Its principal parties are split by an infinity of splinter groups, and the emergence of a *strong left-wing party* has sharply polarised national politics.

Paradoxically, although *most Uruguayans accept that* much is wrong with their society, most of them resist change.

President Luis Alberto Lacalle's greatest challenge is to somehow build a political basis for economic reform. One faction of the ruling Partido *Nacional (better known as the* Blanco party) angrily rejects president Lacalle's plans for an open economy.

But members of the left of centre Partido Rural (usually called the Colorado party) supports the government. The left-wing Frente Amplio (FA), the *third largest* party, viscerally objects to the government's policies. Factionalism *has deepened because* no party won an outright majority in last November's elections.

The FA broke an 80-year Blanco-Colorado political duopoly when it won 28 seats in Congress, compared with the Blanco's 52 seats and 39 for the Colorados. Nuevo Espacio, a small left-wing party, holds the remaining 11 seats.

President Lacalle had to negotiate a coalition called the "Coincidencia" with the Colorados, giving the party four out of 13 seats in his cabinet. Inevitably, the alliance has diluted and delayed introduction of *his* economic policies. It has tilted the balance of power away from the executive branch *and in favour of the* legislature.

The Colorados, who see a large role for the state in managing the economy, want to moderate Mr Lacalle's free market policies.

The FA clings to the old socialist dogmas. Mr José d'Elia once a FA vice-presidential candidate and now president of PIT-CNT, the trade union umbrella organisation, said he opposes "the government's policy of inserting our country in a world economic system established by international finance."

Uruguay's electoral system militates against party discipline. But negotiation is more *than* a requirement of party politics.

By tradition, national decisions are reached by consensus. And, inevitably, the

The electoral system in Uruguay militates against party discipline. But negotiation is more than a requirement of party politics

search for consensus is a slow process - Congress has approved only one of the new government's four economic reform bills. A weakening economy is further undermining the alliance.

Mr Wilson Sanabria, a Colorado congressman, said: "Because of rising inflation and a growing budget deficit, the government has lost all its credibility in only seven months."

Falling real wages and Mr Lacalle's privatisation plans have enraged the powerful trade unions. The PIT-CNT has 42 affiliated unions, which *claim* about 250,000 members, or about one-quarter of the work force.

The unions have dogged Mr Lacalle's government with general strikes, demonstrations, a spate of wildcat strikes and work-to-rule campaigns. Few factories or office buildings are free of posters protesting low pay or loudspeaker units denouncing employers.

Mr Lacalle *responded* by indexing wages to inflation. He is trying to organise a "social pact" in which the unions, employers and government will negotiate concessions. The unions have a curiously middle class flavour. Mr d'Elia, *often described* as a fire-breathing Marxist, is a grandfatherly man who wears a tie to work. And the bank clerks have *Uruguay's* strongest, most militant union.

Uruguay has suffered periods of intense turbulence. A military dictatorship that ruled from 1973 to 1985 crushed mounting civil unrest and terrorism with an iron fist. National reconciliation *has largely buried* the memory of those savage years.

In 1986, the government amnestied officers accused of human rights violations. But within a year, 500,000 people, 25 per cent of the electorate, signed a petition *to hold* a referendum, hoping to revoke the amnesty. The referendum campaign developed into a bitter political battle. But the referendum, finally held in April 1989, approved the amnesty, with 56 per cent of the electorate in favour and 41 per cent against.

The military seldom meddle openly in civilian politics. The armed forces have tried unsuccessfully *to resist the* government's decision to cut the their budget, and reduce their numbers by a tenth. The once-feared Tupamaro guerrillas have become a legal political party with a fashionably ecological hue.

One Tupamaro, who spent a decade in *solitary confinement*, said: "Now I realise that we were wrong to pursue the struggle by force of arms. I feel no bitterness towards my jailers."

AGRICULTURE

Trapped in a time warp

SHEEP and cattle rearing have always been the mainstay of Uruguay's economy and the principal source of its exports. But years of living off the fat of the land have trapped the sector in a kind of time warp.

For too long, farmers have relied on the bounties of nature — the potash-rich soil that produces some of the best pastures in the world, the abundant rainfall — and neglected the incorporation of new technologies that would have raised productivity. As a result, the sector has lost its dynamism and agricultural growth has lagged far *behind* the rest of the economy.

In 1988, disaster struck. Uruguay suffered the worst drought of the century, which continued into 1989. The north of the country, which has the richest pastures, was baked dry. Cattle died of thirst and ranchers slaughtered over 1m head, about 10 per cent of Uruguay's entire stock, in order to cut their losses.

"It was a *disaster*," recalls Mr Carlos Gasparri, the president of Uruguay's Rural Association. "The carcasses were being sold for the price of chicken. Whole estancias (cattle ranches) were emptied."

The drought affected the cattle's reproductive cycle. Normally, 2m calves are born each year, but in 1989, their numbers fell by half. In addition, Uruguay's important rice, soya *and wheat crops* were badly hit.

The rains returned this year, but beef producers are now battling another plague which could have potentially more devastating consequences than the 1988-89 drought: European Community farm subsidies.

Brazil, one of Uruguay's biggest customers, signed a deal last month to import 100,000 tonnes of subsidised EC beef. The price it paid, $1,200 a tonne, is 33 per cent cheaper than Uruguayan beef, and local producers fear they have been priced out of the Brazilian market. They had banked on

'It is crazy that the EC should be able to sell beef cheaper than us when Brazil is on our doorstep'

exporting one-third of their produce, about 50,000 tonnes, to Brazil this year, but they no longer know whether the orders will materialise.

"We cannot possibly compete with these kind of subsidies," says Mr Wilson Sanabria, congressman. "It is crazy *that the EC should* be able to sell beef cheaper than us when Brazil is on our doorstep. That is why Uruguay is arguing strongly for the elimination of all farm subsidies in the current round of GATT talks."

Uruguay's lamb exports, a small but growing sector, has been hard-hit by the commercial embargo against Iraq. Baghdad normally buys 50-60 per cent of Uruguay's annual *production of 25,000 tonnes*, and lamb exporters are urgently seeking alternative customers. Mr Gasparri believes the Soviet Union could be a potential market.

All these problems have served to shake Uruguay's beef producers from their complacency. They *realise* that the failure to develop a modern meat processing industry is costing them dearly in foregone export markets. Only 10 per cent of Uruguay's beef exports are canned, whereas 60 per cent of Argentina's produce is sold in this form.

The US has barred Uruguayan chilled and frozen beef because of foot and mouth disease. But Brazilian meat processing plants, which have the technology to kill the virus, resell Uruguayan beef to the US in cooked form.

Beef producers want to develop a modern, home-grown meat processing industry, but they argue that the dearth of long-term finance and their heavy tax burden, which creams off 75 per cent of their profits, are killing opportunities for investment.

They are lobbying the government for tax breaks and soft credits, and for a more aggressive export promotion policy abroad.

Uruguay is the second largest *wool exporter* in the world. Sales totalled $485m last year, or about 30 per cent of the country total export receipts, but earnings fluctuate widely from year to year because of the volatility of world prices. Here again, Uruguay's economy would be less vulnerable *if it developed* a modern textile industry.

It is in the dairy (see below) and horticultural sectors that the greatest strides have been made. And one has to travel to the far north-west of the country, where the borders of Uruguay, Brazil and Argentina meet, to appreciate Uruguay's full agricultural potential.

There, in a small enclave of 20,000 hectares known as Bella *Union, irrigation channels* water sugar cane plantations, strawberries and asparagus destined for Europe. Table grapes are harvested for the US market, and vines are being planted. There are freezing plants for fruit and vegetables and wine cellars.

Bella Union exports about $20m of produce each year, and the area is often held up as a model of enterprise and initiative for the rest of the country.

Many of Bella Union's novel activities would not have taken place without the backing of the Inter-American Development Bank.

Multilateral agencies such as a IADB are often the only source of long-term finance in Uruguay. The IADB is also financing rural electrification and road networks for milk producers in the west of the country and for rice producers in the east.

Leslie Crawford

Uruguay is the second largest wool exporter in the world with sales of $485m last year, about 30 per cent of the country's exports

Lamb exports, a small but growing sector, has been hard hit by the commercial embargo against Iraq

THE DAIRY REVOLUTION

Friend to the small farmers

URUGUAYAN cheese and butter can be bought in most *of the capitals of Europe* and Latin America, in Japan, the US and Iran. But only 15 years ago, the country had no dairy exports to speak of.

Compared to the reigning stagnation in the rest of agriculture, what has taken place in the Uruguayan dairy sector amounts *to a small* revolution: milk production has more than doubled since 1975 to 900m litres per year and exports this year are expected to earn $50m.

The mastermind of this success story is Mr Antonio Mallarino, a soft-spoken gentleman approaching 70 years old who heads Conaprole, the National Co-operative of Milk Producers.

"Twenty years ago I became convinced that our future lay in the export business, *but in* order to do so we needed to transform our traditional production methods and build up a modern dairy *industry*," he says. It is not easy to change the ingrained working habits of small farmers, and Mr Mallarino realised that his task had as much to do with social psychology as with introducing new dairy techniques.

He hired 20 vets and 20 agronomists with explicit instructions that they were not to lecture from above. "Their job for the first few years was merely to befriend small milk producers, who often live in isolated ranches and are suspicious of newcomers."

The educational work unfolded gradually, but the results were fast. Conaprole, which is a privately-run, non-profit making co-operative, has 5,000 members, who account *for about* 80 per cent *of* Uruguay's milk production.

The next step was to get groups of nine to 15 small *producers* to club together to share the cost of buying machinery they could use together. Again, this entailed much patient work to break down the prejudices of fiercely individualistic small farmers. But over 2,000 of them now form part of these groups.

The co-operative provides technical advice, sells pasture seeds and fertilisers, and organises the purchase or lease of tractors, milking machines *and cold storage tanks*. "We

Milk output has more than doubled since 1975 to 900m litres per year

even have our own currency unit," says Mr Mallarino. "A tractor will cost you so many litres of milk a month, fertilisers another x amount of milk. It is the currency our members understand."

To finance Conaprole's investment in new dairy plants and machinery, the members lend the equivalent of 3 per cent of their annual milk sales to the co-operative. This is returned to them after three years. Mr Mallarino says that suppliers credits have also been vital. Conaprole was recently able to import two casein (milk protein) factories and to milk powder plants from France as a result of the *long-term finance extended* by the French manufacturers.

What profit Conaprole makes is either reinvested in improving its dairy plants or channelled into cash incentives for members who produce better milk.

Mr Mallarino's next plan is to get the groups small producers to join forces in larger regional units to carry out long-term investment projects such as irrigation, the bulk purchase of inputs and the transport of milk.

"We are trying to convince producers to put in their own capital for these long-term improvements," he says. "When we achieve this, milk production will double again."

Leslie Crawford

BANKING

Instability has helped the growth of a financial centre

OFFSHORE banking seems an unlikely growth industry for a South American country. Mr Agustin de Urtubey, Central Bank vice-president, admitted: "We have the worst address in the world. If the technology existed, we'd tow Uruguay out to the mid-Atlantic."

Instability has helped Montevideo's growth as a financial centre. After all, it is conveniently located next door to Argentina, one of the world's flight capital champions.

During one burst of hyperinflation last year, Argentines reportedly sent $0.6bn in flight capital to Montevideo. Non-resident deposits in Montevideo grew by 35 per cent in 1989.

Banking is central to the government's economic development strategy.

The financial sector employs 16,700 people. The Uruguayan banking system holds close to $5bn in deposits, 80 per cent of which are denominated in foreign currency. About half those deposits are believed to be held by Argentines. Foreigners, mostly Argentine, also hold a large portion of the government's $2bn stock of dollar-denominated paper.

The government has spent heavily to preserve Uruguay's standing as a financial centre. The Central Bank put the cost of rescuing Banco Comercial, in 1987, at over $200m. It was reprivatised in a $15m debt-for-equity swop last week to a consortium of four banks: Credit Suisse, Chemical Bank, Dresdener Bank and Banco General de Negocios, an Argentine bank.

Uruguay offers a tradition of strictly-enforced banking secrecy, a generous tax regime and liberal exchange regulations.

It has steadily growing international reserves and an unimpeachable record as a borrower. Last year, the government introduced tax exemptions and lowered capital requirements for banks setting up offshore branches. There have been no takers so far.

South America's notoriety as a financial black hole is hard to overcome. In spite of sound profitability, bankers complain that the market is overbanked, that a militant union constricts management, and that loans to local borrowers are often hard to recover.

Net Int. Reserves ($bn)	
1985	0.662
1986	1.194
1987	1.178
1988	1.248
1989	1.920
1990*	2.059

*To May
Source: Central Bank

Moreover, Uruguay's reputation for stability has not prevented a rash of banking crises, including the collapse in 1987 of Banco Comercial, its oldest and most famous bank.

Uruguay's financial system ranges from large international banks to sleazy exchange houses. It has 21 institutions with full banking licenses, 18 of which are are owned by foreigners. The three Uruguayan banks folded in 1987, but remain afloat under government control. The government owns a development bank, a mortgage bank and monopolises the insurance market.

Numerous foreign banks have representative offices in Montevideo. Uruguay has 15 banking houses, which are only licensed to do business in foreign currencies. These houses are owned by foreigners, but few have the blue chip reputation of the 18 banks. At the bottom are exchange houses, some of which operate illegal currency rackets.

In spite of its problems, bankers say there are promising markets in Uruguay and Latin America in general. NMB Bank of the Netherlands bought a bankrupt Uruguayan bank in 1982 and used it as a base to expand into Argentina and Brazil, where it has won a reputation for imaginative financial engineering.

Mr Cornelis E Dinandt, executive director of NMB Bank Sudamericano, said: "Many banks want to withdraw, but we want to expand in Latin America. It is a margin business, where the margin represents a very high risk."

Trade finance is NMB's principal line of business. Although the region's economies are struggling. "Trade goes on – you just have to know who to do it with and how," says Mr Dinandt, who is handling trade finance as far afield as Ecuador.

Uruguay is used as a base for dubious deals elsewhere in Latin America.

A banker said: "Within the framework of Uruguayan laws, there is great freedom to do whatever you want." For example, exporters from Argentina and Brazil use banks and shell companies in Montevideo to fiddle export and import invoices.

During one burst of hyperinflation last year, Argentines reportedly sent $0.6bn in flight capital to Montevideo

Banks in Montevideo trawl for deposits from the rich in both countries, a practice frowned upon by Brasilia and Buenos Aires.

Return on assets can be a lot higher than in large markets, although no bank will reveal its profits. Some four-fifths of local lending is made in dollars, mostly to exporters, the few multinationals operating in Uruguay and a few blue chip Uruguayan companies. Most lending is at 30 to 60 days, the maturity of most deposits.

However, lending to Uruguayans can be risky. Mr A M Menary, principal manager of Lloyds Bank in Uruguay, said: "People don't like to pay. They'll take all measures, legal and illegal, not to pay."

Bankers say the bankworkers' union is a large obstacle to expansion. It refuses to change working practices. That is why banks only open from 1pm to 7pm. No bank employee has ever been laid off. One banker said: "I would cause an immediate strike if I fired anyone."

The government does not want banking secrecy to be confused with lax regulation. The collapse of banks, often under highly suspicious circumstances, and the permanent risk of contamination by drug money hurts Uruguay's claim to be a reputable financial centre.

The Central Bank has adopted stricter controls laid down by the Bank for International Settlements, and the World Bank has imposed stiffer regulation as a condition for lending $140m to help rescue the failed banks.

It is hard to distinguish between money generated by dubious business deals and drug money, but bankers and government officials hotly deny that Montevideo is used to launder drug money.

One banker said: "The launderers don't operate here. It's a small market, so any sizeable operation gets noticed, especially if it's repetitive. Drug barons have multi-million dollar laundering requirements."

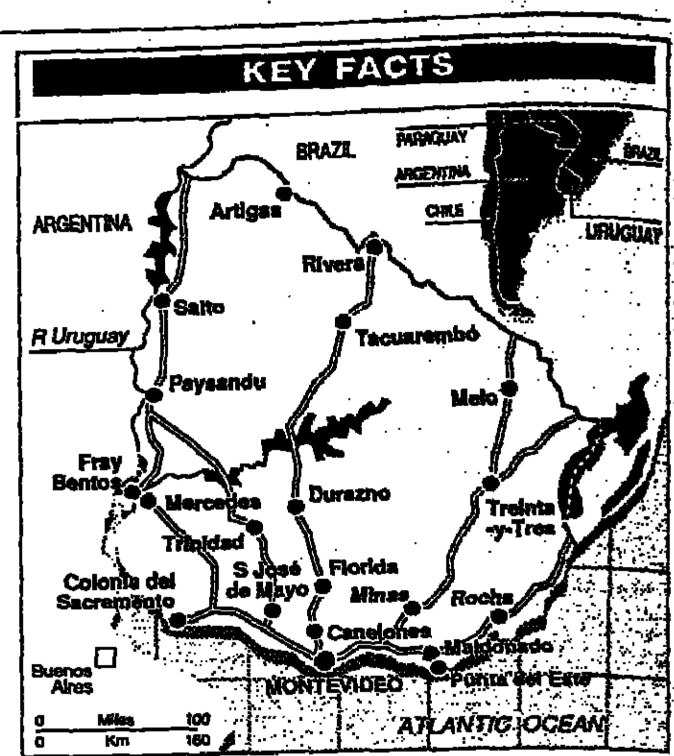
Western diplomats are not so sure. Last year, Uruguay extradited Mr Raul Vivas, an Argentine, to the US accused of laundering $1bn-$1.2bn-worth of drug money. For more than two years, he exported gold-painted lead bars from Montevideo to Los Angeles against payment in real money.

Diplomats think laundering could be taking place through the less regulated banking houses and exchange houses. Uruguay and the US are negotiating a treaty to curb secrecy laws to ease investigation of laundering operations.

John Barham,
Montevideo

Central Montevideo (above)
Downtown Montevideo (below): shoe shining amid the political posters for Presidential elections in November, 1989

KEY FACTS



Area	176,215 sq km
Population	3.08m (1989 estimate)
Head of State	President Luis Alberto Lacalle
Currency	New Peso = 100 centesimos
Average Exch Rate	1988 $1 = NP359.44
	1989 $1 = NP605.51

ECONOMY	1988	1989
Total GDP ($bn)	7.9	8.4
Real GDP growth (%)	0.5	1.5
GDP per capita ($)	2,596	2,733
Components of GDP (%)		
Private Consumption	73.3	71.9
Gross Fixed Investment	9.5	9.4
Increase in Stocks	0.3	-0.1
Government Consumption	13.0	13.0
Exports	22.1	23.6
Imports	-18.2	-17.8
Current Account Balance ($m)	8.9	153.2
Exports ($m)	1,404.5	1,599.0
Imports ($m)	1,112.2	1,136.2
Trade Balance ($m)	292.3	462.8
Main Trading Partners (% of value)		
Exports		
Brazil	16.5	27.7
EC	26.4	22.7
US	11.3	11.1
China	9.8	4.9
Imports		
Brazil	26.1	25.8
EC	20.8	19.3
Argentina	15.2	15.6
US	7.9	9.6
Total external debt ($bn)	3.8	3.8
External debt as % of GDP	48.1	45.2
Debt service ratio (%)	46.8	38.5
Budget deficit ($m)	150.2	272.2
Budget deficit as % of GDP	-1.9	-3.2
Consumer prices (% change pa)	62.2	80.5
Total reserves minus gold ($m)	532.0	501.0
M1 growth rate (% pa)	64.3	34.3
Discount Rate (%, end period)	154.5	219.6
Life expectancy (years)	71	n.a.

Source: IMF, Datastream, Economist Intelligence Unit

Leslie Crawford explores the tentative steps towards privatisation

A cautious sell-off approach

ONLY five years ago, any politician who dared talk about privatisation in Uruguay, *the only cradle-to-the-grave* welfare state in Latin America, risked committing professional suicide.

However, the Lacalle government completed its first privatisation last week when it sold Banco Comercial, the country's oldest bank which had crashed three years earlier. A consortium comprising Credit Suisse, Chemical Bank, Dresdner Bank and Banco General de Negocios, an Argentine bank, paid $15m in a debt-for-equity swop for the bank.

President Luis Alberto Lacalle is a fervent convert, but he knows he must proceed cautiously. Due to Uruguay's complex electoral rules, he won office with only 22 per cent of the national vote. And although privatisation figured prominently in his electoral platform, opinion polls show that a majority of his fellow *countrymen remain deeply* opposed to the idea of selling off state enterprises. This *entrenched antagonism baffles* Mr Lacalle.

Uruguayans complain about *the public telephone service.* When asked whether a private company could do a better job, they say yes. But when you then ask whether Antel (state telecommunications company) should be privatised, a majority say no.

It is not that Uruguayans are irrational, says Mr Lacalle, it is just that they are very conservative, and wary of change. The biggest fear is that privatisation will lead to big job lay-offs in a country where 25 per cent of the workforce (some 270,000 people) are employed by the state.

Even though the pay is appalling, and most public employees take on extra jobs to make ends meet, they value *the security of state employment.* Under Uruguay's constitution, it is illegal to sack a civil servant, unless he commits a criminal offence.

Not surprisingly, the trade unions are mounting a big campaign against Mr Lacalle's privatisation proposals. Using arguments that have almost disappeared from the rest of Latin America, they accuse the president of jeopardising Uruguay's sovereignty by attempt*ing to hand over important* state services to foreign multinationals.

The main left-wing opposition alliance, Frente Amplio, is also against privatisation, although it agrees that the state sector needs to be reformed to become more efficient.

"What we are against," says Mr Liber Seregni, Frente Amplio's 73-year-old leader, "is privatising profits and soci*alising losses.*"

Even within Mr Lacalle's ruling National Party, there are voices of *dissent. This is* expected to bog down legislation in Congress, and nobody in or outside government even dares to predict when a privatisation programme will begin in earnest.

All of these obstacles, however, do not seem to daunt Mr Conrado Hughes, budget and planning minister, who has been *dubbed* Uruguay's "privatisation czar" by the local press.

*He has sent two bills to Con*gress: one which seeks to do away with state monopolies in insurance, telecommunications, port services, gambling, cement and alcohol refining. The other is a broad state reform bill which, among other things, seeks to give the government a free hand in the disposal of state assets.

Mr Hughes, who was in Britain in July studying how various companies were privatised, says most of Uruguay's 15 state companies make a profit, but they are able to do so only because they are monopolies and can therefore fix prices.

"Our ports," he says, "employ 5,000 workers, but Valparaiso in Chile moves three times more cargo with only 650 employees." He *believes privatising* certain services, and opening up other activities to private competition, will *shake Uruguay out* of its lethargy.

A leading company that will be up for privatisation if Mr Hughes' legislation makes it through Congress is Antel, the telecommunications company.

Ms Rosario Medero, Antel's president, says the company has only just begun examining options with the World Bank *and foreign privatisation con*sultants. She is convinced that Antel needs private partners to double its investment rate of $50m a year.

There are 97,000 Uruguayans waiting for a telephone line. On average, they will have to wait two years, but 15 years in the countryside is not unheard of. Ms Medero says *the state does not have* the resources to meet this demand.

Ms Medero believes that the *state will probably retain* a sizeable share in Antel, although it will leave the day to day administration of the company to a private operator. She places great store in the demonopolisation of the telecommunications sector, as this will encourage private companies to provide new services, such as data transmission.

DEBT REPAYMENTS

The search for some reward

URUGUAY is seeking a Brady-style package of debt reduction and new loans as a reward for its flawless debt-servicing record.

In spite of having one of the highest per capita debts in Latin America, Uruguay has remained current on interest payments – a point president Luis Alberto Lacalle *sought to* drive home in a recent visit to Washington. "Let me believe *that it pays to pay,*" he says that he told the US president.

Interest payments on the country's $7.2bn foreign debt totalled $552m last year, an amount equivalent to one-third of export earnings. The government argues, and the IMF agrees, *that* this heavy debt-servicing burden is a serious obstacle to growth. Hence the need for a new deal with commercial banks that would allow Uruguay to buy back its debt.

To clear the path of the negotiations *which are taking* place in Washington and New York, the IMF is expected to *ratify a stand-by* agreement for Uruguay this month. Under the terms of the SDR accord, Uruguay will commit itself to reducing its public sector deficit to 2.5 per cent of GDP by the end of 1991 (from a level of 6.5 per cent at the beginning of *this year*). Inflation will also have to come down from the annualised rate of 110 per cent to 30 per cent in 1991.

"We shall probably meet the public sector deficit target by the end of this year," says Mr Michelle Santos, one of the chief economic strategists at the Central Bank. "But the crisis in the Gulf and meteoric *rise of oil prices will seriously* hamper our fight against inflation." Uruguay imports all of its oil.

Reducing the public sector deficit will go a long way towards lightening Uruguay's debt burden. Successive governments have financed the deficit by issuing short-term government bonds and Treasury Bills *denominated* in dollars and bearing yields way above market rates. This stock of short-term debt totals $1.6bn, or 40 per cent of Uruguay's public sector foreign debt, and the Central Bank would dearly like to reduce its dependence on such an expensive form of finance.

The important concession Uruguay wants to win from its commercial bank creditors is a waiver to buy back $800m-$1bn of the $1.6bn it owes to the banks at the secondary market value of about 50 per cent. The *banks are said to prefer a tradi*tional rescheduling deal, but Mr Agustin de Uturbey, the *Central Bank vice-president,* believes Uruguay will get what it wants. "There are a considerable number of banks that want to sell Uruguayan paper. That is why we think our target is feasible," he says.

Those banks who do not want to sell their *debt* paper have a second option: they can chose to increase their Uruguayan exposure by 25 per cent. Uruguay hopes to raise about $100m in fresh money in this way. It hopes to reduce its interest payments by getting banks to exchange debt paper for zero-coupon bonds backed by the US Treasury.

Because Uruguay's *debt* is small, it does not expect to encounter the difficulties faced by Mexico, Venezuela or *the* Philippines in getting a Brady deal. However, achieving the right balance between fresh credits and debt reduction is expected to take many months.

Leslie Crawford

ARCHITECTURE

Music to Glasgow's ears

The crashing sounds of Shostakovitch's fifth symphony played by the Berlin Philharmonic Orchestra under the baton of Kurt Sanderling baptised Glasgow's new concert hall with sound in an unmistakable manner last week.

It was a moving occasion to hear one of the world's finest orchestras, from a newly-united country, playing the work of a composer once censored under communism. His subtitle for the fifth symphony, "A Soviet artist's reply to just criticism", now has a heavily ironical ring to it.

A new Royal Concert Hall opened during its year as European City of Culture is a good reason for Glasgow to celebrate with waves of glorious noise. But is the exuberance of the last movement of Shostakovitch's symphony appropriate as a fanfare for a great new work of civic architecture ?

The first thing to note about the Glasgow Royal Concert Hall is that it is not exactly a new design. It has a long history dating from 1968 when Sir Leslie Martin, best know as the designer, with Sir Robert Matthew, of the Royal Festival Hallwas asked to prepare a plan for a new cultural centre for Glasgow Corporation. Martin had to consider the location and possible design of new buildings for a concert and conference hall, an exhibition hall, a civic theatre and a repertory theatre.

Like so many similar ideas in Britain for major public buildings, this scheme was to be much diluted over time. Martin suggested a site that would create a new nodal point for Glasgow, at the junction of an extended Buchanan Street and Sauchiehall Street. His proposal, in the late 1960s, was for a new square surrounded by cultural buildings and associated commercial premises. Both Martin and the city were anxious to improve public transport and ease access to the new centre. A new underground station and pedestrianisation of the main streets were planned to make access easier.

During the 1970s development of the design continued, and indeed, complete design drawings were prepared for a theatre and concert hall. But financial restrictions meant that work was indefinitely postponed. The 1970s proposals showed a large reinforced concrete structure containing a group of cultural buildings linked by a covered shopping arcade, but gradually the component elements of the scheme were to drop away: the Glasgow Citizens theatre found its own new home and the Royal Scottish Academy developed another site. But the city had taken steps to move the bus station, to pedestrianise and to build the new underground. The concert hall remained the only civic content of the scheme and Martin developed proposals to integrate the hall into a commercial development with linking shopping malls.

What has been built in 1990 at the head of Buchanan Street is a concert hall which is much more self contained than was ever intended. There will be a major shopping centre adjoining the hall, but that is not yet built. It was in the 1980s that the planning of the concert hall was completed by Sir Leslie Martin (born in 1908) who then handed over the completion of the hall to the Edinburgh office of architects Sir Robert Matthews old practice RMJM. Thus although a spiritual continuity with the partnership that produced London's Festival Hall was maintained, times now are very different from the festive 1950s and the Glasgow hall we see today is much less innovative and exciting than Leslie Martin's masterpiece, the Royal Festival Hall.

Leslie Martin's buildings are recognisable by their strong, simple form. The question of architectural style does not exist in Sir Leslie's equation because he feels that architectural form can so easily be given an expression that is both superficial and prone to accidents of fashion.

This is where many people today would argue with him. His own styleless approach has become a style: it leaves the user of his buildings satisfied by their functionality but empty of anything more than cool abstraction.

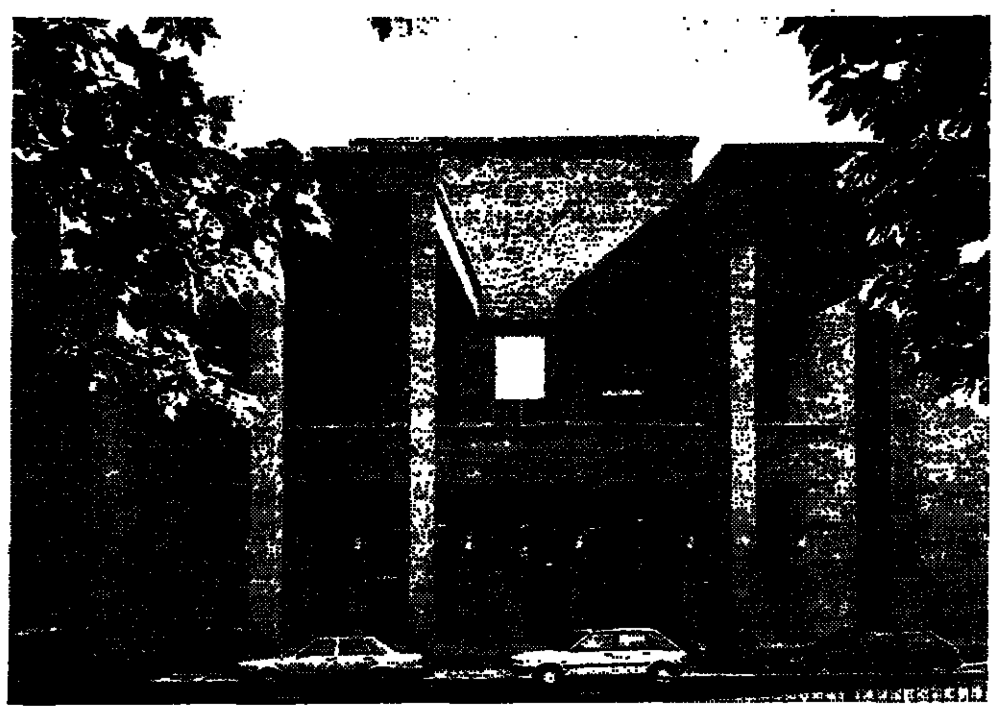
The Glasgow Hall is a large stone clad building with an austere exterior relieved only by a curved entrance and a framework of detached pilasters. The outside of the hall has been much criticised in Glasgow – a city famous for the exuberance of so many of its 19th century buildings and the city that produced perhaps the master of modern decoration in Charles Rennie Mackintosh. I was very struck by the comments of the architects from RMJM who took over the project from the elderly Martin when they described the old master's aversion to "embellishment."

The plan is elegant and spacious and the large public foyers are lofty and well lit and pleasant to use. They are without the intricacy of the superb open plan of the Royal Festival Hall and there is a heaviness that has been likened to the public architecture of late 20th century Eastern Europe. The finishes are marble up to a dado line and then plaster and paint. The red patterned carpet and two mural paintings in the late Picasso manner by Ian Mc Culloch add high notes of clashing colour.

The hall is simplicity itself – ash and plaster, wood and carpet. It sounded marvellous and was enthusiastically approved of by the Berlin orchestra and the audience. The sight lines are excellent and it had the capacity to be used in a variety of configurations. Its looks are plain and unmemorable.

The hall was built for a little more than £28 million, it seats some 2100 and has a separate hall for conferences, a pleasing restaurant and several long marble topped bars. The main hall can be used for boxing matches, ballet and snooker, almost as flexible as a tv studio. I suspect it is this flexibility combined with a relatively modest budget that has given the hall a sense of efficiency rather than a sense of occasion.

Colin Amery



The Royal Concert Hall, Glasgow, designed by Sir Leslie Martin

Attila

COVENT GARDEN

VERDI'S ninth opera comes to Covent Garden for the first time, in a staging conducted by Edward Downes, produced by Elijah Moshinsky, and designed by Michael Yeargan. It is an absolute winner. The Royal Opera is at the moment a company beset by care, but there's nothing like a success of the kind and scale enjoyed on Saturday – with cheering and stamping along the way and at the end – to put heart into its foot-soldiers. For this was an evening of irresistible excitement: a flawed, inconsistently motivated opera of immense dramatic vitality ("all muscle and sinew", Julian Budden has called *Attila*) made to seem tremendously powerful music-theatre, all but unbroken in its directness of appeal and sweep of style.

In a performance of less than complete stylistic certainty (such as the last London *Attila*, by University College Opera in 1979), the flaws tend to bulk large. The titular bass, supposedly a villain, can strike the spectator as altogether more noble than the plotters who are variously his victims (soprano and tenor) and sometime allies (baritone). The setting-up of situations based on striking oppositions, incisive and economical as always in early Verdi, risks absurdity in the finale: Attila's murder is almost perfunctory in its organisation and dispatch.

And in spite of melodic beauties and subtleties of scoring prophetic of *Macbeth* (next in line) and even farther ahead in the Verdi future, this can seem the most "cabalettist" of the galley-years operas – full of um-cha-um-cha allegros for the principal singers set in motion by slight dramatic pretexts and whizzing along in vulgarly energetic foursquare patterns.

In this performance, shaped by Downes with a mastery of Verdi idiom and style currently unequalled in the opera world, those flaws were recalled afterwards, not during the experience. The conductor translates the blunt statements of the music into unstoppable dramatic urgency.

He does not drive the rhythms or put on bursts of speed (as less wise Verdi conductors are apt to do) in the face of approaching climaxes; he gives the orchestral articulation an athlete's elasticity and buoyancy. His cast does not slam out its vocal lines in provincial stand-and-deliver manner (the bane of early Verdi performance); it is encouraged to phrase with breadth and "speaking" eloquence, infusing words and notes with rich varieties of emotion and colour. The chorus is in alert, disciplined form; it seems typical of Downes's astute musicianship that the two *comprimarii* – John Tranter as Pope Leo, Ramon Remedios as Attila's manservant – should be allowed to make their mark so vividly.

The full force of Italian drama-through-the-voices is unleashed: one understands exactly how and why this became (in the words of John Rosselli's excellent programme essay) "Verdi's quintessential Risorgimento opera". As we know from the Welsh National *Ernani* of the mid-'70s, Moshinsky has a natural feeling for early Verdi. He does not patronise, in modish Deconstructionist clichés, the "muscle and sinew" of both music and words.

The visual style – scene-changes swiftly achieved by moving screens, harsh blacks and greys for the fugitive *Aquileians and exotic peacock* colours for the conquering Huns, touches of naturalism tempered by uncluttered simplicities of outline – is bold. Apart from some unhappy touches in the opening scene, the chorus handling is faultless. The characterisation mixes 20th century psychological insights (Odabella's drive for vengeance is perceptively fleshed out) with larger-than-life stature of the proper "period" kind. Almost all the way through, this production is neither radical nor conservative. It seems, simply, right.

The principal quartet is not the one originally advertised: a soprano and baritone were lost on the way to Saturday's opening. Not knowing this, one might well shower praise on the Royal Opera administration for matchless insight into early Verdi casting. As Attila Ruggero Raimondi is a singer and actor transformed: none of the grey, slithery vocalisation heard on the Philips *Attila* recording, no sense of dramatic *routine*, but a *magnificently* handsome vocal and physical presence supported by proud declamation. Likewise Dennis O'Neill in the tenor role of Foresto: the personality has gained maturity, the voice power without monotony (as his control of dynamic shading bore out).

The avoidance of meaningless semaphore by these two was admirable. Giorgio Zancanaro's Ezio was perhaps more in the hand-waving line, but his trim Italian baritone made so splendidly vigorous an impression that one hardly noticed. And as Odabella there is the sublime Josephine Barstow – understandably cautious, though still accomplished, in her hideously difficult florid entrance music, incandescent thereafter. As a Barstow devotee I have to say that I've never heard her sing more freely, with greater delicacy or conviction, with greater command of drama-through-music, than on Saturday. If there were no other reason *to buy, beg or steal a ticket* for the remaining performances, she would supply reason enough.

Max Loppert

Ruggero Raimondi as Attila: a magnificently handsome vocal and physical presence

New Year

GLYNDEBOURNE

WHEN Glyndebourne Touring Opera sets off on its travels with this production of Tippett's latest opera, the theatres in the provinces have quite a spectacle in store. Although anybody the slightest bit interested in opera must have read about *New Year* by now, it is still possible that the endless reviews and articles since the opera's premiere have failed to make clear what a spectacular evening of stagecraft it is.

To put on stage a science-fiction opera, with spaceships taking off and landing before our eyes, must be a producer's dream, as much as a composer's.

There is some wry amusement in noting that *New Year's* original producer, Peter Hall, who made a widely-publicised exit from Glyndebourne earlier this year, no longer gets even a passing credit in the programme. But Robin Tebbutt has done a fine job with this revival.

It will presumably fall to him and the stage staff of the touring company to ensure that such a testing production works as smoothly in the many small and no doubt less well-equipped theatres round the country as it did here at Glyndebourne itself. The usual high standards certainly prevailed in all other aspects of this performance, which was thoroughly well rehearsed, as expected. A strong, well-knit company effort.

Not least among its virtues was the exciting theatrical drive that the conductor Sian Edwards obtained from the Glyndebourne Touring Opera Orchestra.

It is difficult to believe that any of the production's musical intensity has been lost. Nor was it Miss Edwards's fault that so few of the words could be heard, as the singers seemed to put little priority on getting Tippett's admittedly cliché-ridden prose across the footlights.

The "Terror Town" of the composer's invention ("Somewhere Today") has all the sights, sounds and attitudes of the United States, which may cause problems for British performers. Vernon Henry jnr's Presenter came off a lot better in that respect than Omar Ebrahim's highly-energised attempt at the delinquent, rastafarian Donny, a difficult role by any standards. Susan Bickley was a tower of maternal strength as Nan, Kim Begley an incisive Pelegrin; and Marie Angel, though she gave little outward sign of Jo Ann's timidity, sang her music with sensuous, lyrical breadth.

In many ways *New Year* is an unsatisfying work: uneven, confusing, weak in its humour, overloaded with ideas. But from its extraordinary hotchpotch of sci-fi, romance, urban violence, moralising and idealism, one takes what one can grasp hold of and can come out feeling, at best, heartened and uplifted. The last act, where the music flowers into Tippett at his regenerative best, raises the opera on to a genuinely inspiring level.

The Glyndebourne tour should have a success on its hands. The production moves *on next to Glasgow, Oxford* and Manchester.

Richard Fairman

Fidelio

GLYNDEBOURNE

Fidelio returns for the Glyndebourne tour, Peter Hall's admired production now directed by Stephen Lawless. The conductor is Graeme Jenkins, the company's outgoing musical director. There is an interesting, well-balanced, mainly young cast of whom many are fresh to their roles. Hall's conception, as many will recall, came as a welcome change from a succession of *Fidelios* bristling with contemporary relevance – police state uniforms, jackboots, cement, rubble, barbed wire and an overall greyness.

John Bury's sets, in essence traditionally architectural, lend an air of solid outward reassurance which heightens rather than distracts from the memories surely in every spectator's mind of momentous happenings of the past year, making the implications of Beethoven's hymn to freedom as tremendous and as topical as ever.

Wednesday's performance had an amount of vitality in spite of some rough edges, promising much once the sturdy playing of the GTO orchestra has gained a little more polish; in details like the slow string turns on the introduction to Florestan's aria, for example. Meanwhile Jenkins is right to go for attack rather than burnish. The title-role is sung by the American soprano Carol Yahr, making her British debut. She has the looks and the feel for the role. Her potential *hochdramatische* voice, not yet evenly controlled, was I suspect in uneasy condition on Wednesday, when the rounded tone for "Komm, Hoffnung" in Leonore's aria was not quite to be had. Miss Yahr's grasp of the role is beyond doubt. Mark Baker's Florestan (his first) is even now impressive, with an arresting first entry, subsequently dignified and touching.

The small, dangerous, bullet-headed Pizarro of Nicholas Folwell, already experienced in the role, is highly effective. The prison staff is well above average, the Rocco of John Hall carefully observed, the Marzelline of Cheryl Barker and Jaquino of Christopher Ventris both unusually strong. Stephen Richardson's Don Fernando, a little rough for the music, suggests that there is firm intention behind the gracious ministerial words. The Glyndebourne chorus excels both in the pathos of the prisoner's greeting the sun and in the release of the final popular rejoicings.

Ronald Crichton

ARTS GUIDE

October 12-18

MUSIC

London

Royal Philharmonic Orchestra conducted by Nicholas Cleobury, with Steven Isserlis (cello) and Bernard Roberts (piano). Beethoven and Tavener. Royal Festival Hall (Mon) (071-928 8800).
The Philharmonia conducted by Neeme Järvi, with John Wallace (trumpet) and Vladimir Ovchinikov (piano). Sibelius, Shostakovich, Bartók. Royal Festival Hall (Tues) (071-928 8800).
English Chamber Orchestra conducted by Matthew Best, with chorus and soloists. Handel and Haydn. Queen Elizabeth Hall (Wed) (071 928 8800).
The London Philharmonic conducted by Vernon Handley, with Rivka Golani (viola). Tippett, Elgar, Vaughan Williams. Royal Festival Hall (Thur) (071-928 8800).

Paris

Orchestre Philharmonic de Radio France conducted by Marek Janowski, with Kyung Wha Chung (violin). Dutilleux, Bartok, Schumann (Tue). Bastille Opera (42302308).
Ensemble Orchestral de Paris conducted by Armin Jordan and vocal ensemble Audite Nova conducted by Jean Sourisse. Mozart's*Idomeneo* in concert version (Tues). Salle Pleyel (45638873).
Ensemble Intercontemporain conducted by Pierre Boulez: Stravinsky, Berio, Ferneyhough, Schoenberg (Tues). Chatelet (40282840).
Orchestre de Paris conducted by Semyon Bychkov, with Andreas Schmidt (baritone) and the Swingle Singers. Schubert/Berio, Mahler/Berio, Berio (Wed, Thur). Salle Pleyel (45638873).
Orchestre National de France conducted by Jeffrey Tate, with Philippe Bianconi (piano). Berg, Mozart (Thur). Théâtre des Champs Elysées (47203637).

Amsterdam

Christian Bor (violin) and Rian de Waal (piano). Franck, Respighi (Mon). Concertgebouw (718 345).
Amsterdam Bach Soloists with Paul Verbey (flute), Thomas Hengelbrock conducting (Tue). Concertgebouw (718 345).
Melos Quartet. Hindemith, Mozart, Janacek (Wed). Concertgebouw (718 345).
Royal Concertgebouw Orchestra with Ronald Brautigam (piano), Riccardo Chailly conducting. Schönberg, Ligeti, van Keulen, Varese (Thur). Concertgebouw (718 345).

Utrecht

Netherlands Chamber Orchestra and Choir with vocal soloists conducted by Hartmut Haenchen. Mozart, Webern, Schonberg (Wed). Vredenburg (31 45 44).
Choir and Baroque Orchestra of the Netherlands Bach Society conducted by Jos van Veldhoven with the world premiere of Bach's Kothener Trauer-Music as reconstructed by Jos van Veldhoven (Thur). Vredenburg (31 45 44).

Madrid

Margaret Price (soprano), accompanied by Graham Johnson (piano), sings works by Schubert, Schumann and Brahms (Tues). *Auditorio Nacional de Musica* (337 01 00).
Narciso Yepes (guitar). Mudarra, J.S. Bach, Lebrero, Monpou,Halffter, Rodrigo, Brouwer, Barrios, Cherubito (Thur). Auditorio Nacional de Musica (337 01 00).

Milan

Carlo Maria Giulini conducting Bach's Mass in B Minor with soloists Lynn Dawson, Bernadette Manca di Nissa, Keith Lewis and Rodney Gilfry and the London Philharmonia Chorus (Wed, Thur). Teatro Alla Scala (80.91.26).

Rome

Yefim Bronkman (piano) playing Tchaikovsky, Prokofiev and Brahms (Thur). Teatro Olimpico (393304).

New York

Moscow Soloists of the USSR conducted by Yuri Bashmet. Hindemith, Britten, Shostakovich, Tchaikovsky (Mon). Carnegie Hall (247 7400).
Vladimir Viardo piano recital. Masterpieces of the Russian keyboard literature (Mon). Alice Tully Hall, Lincoln Center. (874 6770).
Curtis Institute Symphony conducted by Otto-Werner Mueller with Isaac Stern (violin). Haydn, Hindemith, Beethoven (Tue). Carnegie Hall (247 7400).
New York Philharmonic conducted by Leonard Slatkin with John Browning (piano). W. Schuman, Beethoven, Saint-Saens (Tue); Leonard Slatkin conducting with Glenn Dicterow (piano). Beethoven, Shostakovich (Thur). Avery Fisher Hall, Lincoln Center (874 6770).
Concert Royal Baroque Orchestra conducted by James Richman with Suzanne Peck (soprano), Howard Crook (tenor), Nathaniel Watson (bass-baritone). Rameau (Wed, Thur). Merkin Hall (362 8719).
Pittsburgh Symphony conducted by Lorin Maazel with James Galway (flute). Wagner, Neilkrug (Wed). Avery Fisher Hall, Lincoln Center (874 6770).

Washington

National Symphony Pops Concert conducted by Victor Borge. mixed programme (Thur). Concert Hall, Kennedy Center (467 4600).

Chicago

Chicago Symphony Orchestra conducted by Sir Georg Solti. Bartok, Debussy, Shostakovich (Wed); Michael Morgan conducting. Still, Diamond, Dvorak (Thur). Orchestra Hall (435 3332).

Tokyo

The Madrigal Chorus conducted by Marin Constantin. Suntory Hall (Mon) (780 5400).
Carlo Bergonzi with Vincenzo Scalera. Tenor arias, etc. Shinjuku Bunka Centre (Tues) (5485 1506).
Heinrich Schiff (cello). Bach, cello suites. Casals Hall (Tues, Wed) (235 1661).
NHK Symphony Orchestra conducted by Ferdinand Leitner, with Carmen Reppel, Josef Protshka, *Gunter von Kannen.* Beethoven Fidelio (concert performance). NHK Hall (Wed, Thur) (465 1781).

SALEROOM

Partners to separate

ADER Picard Tajan, France's largest auctioneering company and the third biggest in the world after Sotheby's and Christie's, is planning a separation which could take a year to negotiate, one of its four partners Jacques Tajan has announced.

The split will come, ironically enough, after the most prosperous year in the firm's history. Between 1987 and 1989 Ader Picard Tajan more than doubled their sales from Fr470m (£46.6m) to Fr1.148bn. But divorce is inevitable, Tajan says, because of his partners' *"total absence of strategy"*.

"They have no overall project for the firm and I am deeply resentful towards my colleagues" Tajan said.

Divergences of opinion have existed within the firm for a number of years. But Mr Tajan was particularly angered earlier this year when his partners, Jean-Louis Picard, Remi Ader and Antoine Ader, refused as financially unrealistic his scheme to move to new premises – a converted cinema on the Champs-Elysées with an annual rent of Fr6m.

Tajan, who paid a Fr400,000 down payment on the property before having the move refused by his partners wanted to share the premises with foreign firms. He says he was assured informally by publicist Jacques Seguela that leasing poster hoardings outside the building could bring in annual income of Fr3m.

Ader Picard Tajan, which employs 70 people on rue Favart near to Paris's Drouot salerooms, was set up in 1972. The auctioneers also have offices in New York, Brussels, Monte Carlo and Lausanne.

Tajan's recent statements, confirming those he made earlier this summer, also without consulting his partners, to the New York magazine Art and Auction have aggravated friction within the company.

"I am deeply sorry that such an important associate has spoken publicly of separation before a decision has been reached officially by his partners" Jean-Louis Picard said.

"It is true we have different outlooks. Mr Tajan for example does not accept the idea of working with distinct specialised departments inside the firm – the very policy which has accounted for the success of Sotheby's and Christie's. That is a retrograde attitude to have in 1990," Picard said.

The four members of Ader Picard Tajan have now settled into two camps with Tajan and Remi Ader on one side and Antoine Ader and Picard on the other.

Nicholas Powell

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Monday October 15 1990

Setting pay in the ERM

BYGONES ARE bygones. This truth should be engraved upon the hearts of everyone engaged in economic life, but most of all upon those of wage bargainers. They must look at prospective inflation, not at its history. If they ignore this requirement, the unemployment consequences for the UK both of entry into the exchange rate mechanism of the European Monetary System and of the recession will be worse than they need be.

Over the past year average earnings have risen at an underlying rate of 10 per cent (up from the 7½ per cent or so that ruled during much of the 1980s). Given the deterioration in the short-term economic outlook, this rate of earnings inflation may be not far from the peak. But earnings inflation must fall to about 4 per cent in the fairly near future; this is the rate compatible with a modest trend improvement in competitiveness within the ERM. The longer it takes to reach the target, the further below it earnings inflation will need to fall.

The target is a stiff one. Average earnings have not risen by less than 5 per cent in over 20 years. How much unemployment or – as appears more likely from experience during the 1980s – how large an increase in unemployment might be needed?

Lessons can be drawn from the recession of 1979-82. If the relationship between the absolute increase in unemployment and the absolute decline in wage inflation were to be repeated, unemployment would now have to rise by about 800,000 (reaching 8½ per cent of the labour force) to achieve a reduction in wage inflation to 4 per cent a year. If, however, the relationship were to be that between the proportionate increase in unemployment and the proportionate decline in earnings inflation in 1979-82, the rate of unemployment would now have to double, to 11¾ per cent, to achieve the required reduction.

Modest increase

Perhaps improvements in the labour market will make the outcome less costly even than the lower of these two estimates. The modest increase in wage inflation associated with the halving of unemployment since 1986 suggests this is possible. But it is unlikely, partly because of the still largely uncompetitive nature of the British labour market, but equally because of the persistence of damaging opinions.

Perhaps the most striking feature of the recession of 1979-82 was that a huge increase in unemployment lowered wage inflation, but not real earnings (earnings adjusted for the cost of living) which rose at 1½ per cent a year. Yet those in danger of becoming unemployed might well have preferred somewhat lower real wages in return for a greater chance of retaining their jobs.

What makes such bargains difficult is insistence that the benchmark for wages should be inflation in the previous year. Whenever inflation is rising, such "backward indexation" tends to keep the increase in real wages down and the expansion in employment up. This process was helpful to the cause of lowering unemployment between 1986 and 1989. When inflation starts to fall, however, the process goes into reverse. Since it is easier to throw people out of work than get them back into it, backward indexation tends to generate more unemployment than is needed to curb inflation.

Sectional interests

Prospective inflation is now lower than inflation over the past 12 months. Membership of the ERM virtually guarantees that this will continue over a longer period. If bargains could be made in terms of this prospect (perhaps with some compensation at the end of each period if the assumption turns out to be wrong), it should be possible to achieve the disinflation required by ERM membership at lower cost than now seems likely. Nor should this be too objectionable to working people. True, they would not be compensated for last year's unexpectedly high inflation. But they have already enjoyed average real wage increases of 2½ per cent a year during the 1980s.

This is not an argument for a government-mandated wage policy. It is dangerous to the health of the body politic for wage bargaining to generate direct conflict between public authority, on the one hand, and organised sectional interests, on the other. It is no more desirable for governments to be forced to decide on the "just" pattern of relative wages. Yet both of these are more or less inevitable results of an interventionist wage policy.

There is, however, a powerful case for the Confederation of British Industry and the Trades Union Congress to agree on a pay benchmark for the year ahead. This would be more sensible than the CBI's tendency to insist on firm-level productivity bargaining, which is a way of spreading the highest increase any company can afford throughout the economy. It would also be more sensible than the unions' insistence on being compensated for last year's inflation, which is a way of ensuring that a downturn becomes a disaster. If sights are not adjusted now, the victims will include both a large new batch of unemployed and the performance of the economy over the next several years.

State ownership in the EC

THE European Community's attitude towards nationalised industries has always been internally contradictory. The Rome Treaty explicitly recognises the principle of public ownership but at the same time requires that state-owned companies be treated exactly like private ones. Yet if nationalisation is supposed to confer no special economic status, what is its purpose?

Brussels has until recently fudged the question, preferring for political reasons not to probe too deeply into relations between state-owned companies and their shareholders. However, the approach of 1992 rules out continued equivocation. In a single market, unchecked government favouritism towards nationalised industries would be as distortionary as the persistence of protectionist trade barriers.

The first shots in what promises to be a long battle on the issue are due to be fired today, when EC industry ministers discuss a proposal by Sir Leon Brittan, the competition commissioner, to require fuller disclosure of financial dealings between governments and state-owned manufacturing enterprises. The proposal is intended to identify sources of subsidy, such as cheap loans and lax requirements for return on investment, which have hitherto escaped close Brussels scrutiny.

Sir Leon is aiming at the right target. The rationale for public ownership of industries which operate in competitive international markets is dubious. The classic arguments used in its defence, notably that control of the commanding heights of the economy promotes national interests, have not only been thoroughly discredited but conflict with the goal of further European economic integration.

Though Sir Leon's initiative is broadly supported by Britain, Germany and the Netherlands, it is strongly resisted by France, Greece, Italy and Spain. These countries dispute the Commission's claim that it already has the powers it needs and say it must obtain formal legislation from the Council of Ministers. Fearing political stalemate, Sir Leon is sticking to his guns. Ultimately, the argument may have to be decided by the European Court of Justice.

But even if Sir Leon gets his way, fair and effective monitoring of state industries may be difficult. The Commission's main test is whether a private investor would have acted in the same way as a government shareholder. But that criterion is flawed and imprecise, since it is often hard to know exactly how private investors would have behaved in similar circumstances. Views on what constitutes an acceptable rate of return vary widely in the private sector, where many companies also rely on profitable businesses to subsidise unprofitable ones.

Stricter controls by the Commission may prevent some particularly flagrant abuses. But in the longer run, the best hope may lie in continued privatisation. In countries with big nationalised sectors, notably France, budgetary restraints and existing EC subsidy rules are already starving state-owned industries of badly needed equity capital. For those governments which protest that Brussels' latest proposals put the public sector at an unfair disadvantage, the solution should be obvious.

Machiavelli, I was reminded by a friend in Dubai the other day, had plenty to say about the Gulf crisis nearly 500 years ago. Not the least of President Saddam Hussein's mistakes, according to Machiavellian realpolitik, has been his failure to wipe out the hereditary ruling family of Kuwait, a grave error which has allowed the al-Sabah to challenge him from exile.

Saudi Arabia and Kuwait have made mistakes as well, particularly by depending on foreign forces to defend or recover their territory. "Princes who have thought more of their pleasures than their military have lost their states," wrote Machiavelli in The Prince.

The whole issue of power and political legitimacy in the traditional Arab monarchies of the Gulf has been brought sharply into focus by the Iraqi invasion of Kuwait on August 2, leading to speculation that western-style democracy may be just around the corner. There are several reasons for this doubtful proposition.

First, the western countries which have sent troops to defend Saudi Arabia (and possibly to recapture Kuwait) have begun to ask themselves whether they are not defending feudal regimes as well as oil supplies. This view was forcefully expressed by President François Mitterrand and his foreign minister, Mr Roland Dumas, who said that a parliament and free elections were the least the west could expect in a liberated Kuwait.

Second, everyone saw the manifest failure of the Kuwaiti government to defend the state, despite some heroic resistance after the invasion was complete. Arms deals in the Gulf are traditionally associated with corruption and questions are being asked about the military value of weapons sales to Gulf governments. (Saudis want to know why they used Americans after spending about $150bn on the armed forces in the past decade).

Third, the shock of the Iraqi aggression has simply made all Gulf Arabs think about the future and galvanised some of the region's western-educated citizens into pressing for more open and efficient government.

Nobody knows what will happen in

'More will be demanded of citizens in the Gulf countries; as a result they will seek to have a say politically'

Kuwait, although Sheikh Saad, the crown prince and prime minister, has spoken of building "a new type of Kuwait" after an Iraqi withdrawal. But the citizens and ruling families in the other five Arab Gulf states – Saudi Arabia, the United Arab Emirates, Oman, Bahrain and Qatar – have made it plain to diplomats and journalists in the past two months that any sudden move towards parliamentary democracy is out of the question.

It is also unlikely that foreign workers from the Arab world and Asia, on whom the Gulf economies and their small native populations are notoriously dependent, will be granted any of the rights which some migrant workers feel they deserve as long-term residents.

There is, however, a growing consensus in the Gulf that the legitimacy of the ruling families needs to be enhanced – at least in the eyes of the world now watching the region with interest – and that governments need to become more efficient and responsive to the people they serve.

Such feelings were expressed, somewhat languidly, long before the Iraqi invasion. They were encouraged by the revolutions in eastern Europe, democratisation in some Arab countries and by the growth of the pro-democracy movement in Kuwait, but they have been given a new urgency by the crisis.

The political legitimacy of the traditional rulers in the Gulf is in question, but reform is bound to be slow, reports Victor Mallet

No sudden moves to the ballot box

Seen from the Gulf, western calls for democracy and the abolition of traditional executive monarchies are based on a misconception – namely that there is a fixed progression from political primitivism (the Gulf) to full democracy (the west) with an intermediate and imperfect republican stage (Egypt, Iraq and Syria).

Gulf Arabs argue that they usually enjoy absolute freedom of speech in private and when consulting their rulers, even if public political debate in the media is still taboo. In other words, they experience a type of liberty undreamed of in Syria and Iraq.

Bedouin political traditions are not simply autocratic. The ruler rules but should also listen to the opinions of his subjects to reach a consensus; and he should distribute the community's wealth generously, or face being overthrown by his brother or cousin.

Pressure for change from within the Gulf states can be traced partly to a desire to extend these quasi-democratic traditions and partly to the fact that the ruling families have become wealthier and more authoritarian. In recent years, the Gulf's emirs have appointed crown princes. This eliminates rivalry for the succession but it deprives the community of the right to choose the most suitable member of the family as the new ruler.

Above all, cash royalties from oil exports have given the ruling families financial independence from their citizens. One of the causes of the pro-democracy protests in Kuwait earlier this year was the breakdown of the unwritten pact between the merchant families and the al-Sabah. In the old days, the merchants funded the al-Sabah and thereby exercised a degree of influence in policymaking which has recently been denied them.

At the same time, the majlis – where citizens confront their leaders in person and demand individual services and favours – has proved inadequate as a means of shaping national policy in an era of rapid technical and social advances. Fast-growing populations limit the effectiveness of the majlis in the same way that they make Athenian-style democracy (where all eligible citizens may vote in person) impossible in the west.

"Our rulers are still very accessible," says one businessman in Dubai. "They still rule in the traditional Bedouin way but unfortunately they forget that they have to develop that. I think they are fine but they can be better, otherwise we are in trouble. We've got to legitimise them."

A government official in Abu Dhabi agreed. "The area has lost its innocence," he says. "Citizens will have to work and probably go into the army. More will be demanded of them and as a result they will seek to have a say politically. The sheikh now listens more attentively than before. The old system of ruler and people waiting for the bounty of the ruler is obviously not going to work any more. That doesn't mean suddenly a western parliament, but the ruling families will want to have their legitimacy reinforced."

The Gulf's western-educated elite, including several royal princes, have long impressed visiting journalists and politicians with their sophistication and their ideological commitment to representation and democracy.

Bridging two cultures, they are alumni of Harvard or Oxford but have roots in the Arabian peninsula. They speak to their friends on the telephone in a curious mixture of Arabic and English. They are usually – in public at least – respectful of Arab and Islamic traditions but they are exasperated by petty press censorship and the absence of the intellectual stimulation of public debate.

One intensely capitalist citizen of Dubai told me it was absurd that he could not legally bring home works of Marx and Lenin. All are resentful of the praise that was once heaped on "Brotherly Iraq" in the local media, when the west was full of stories of Mr Saddam's brutality. They feel that their rulers ought to listen to them more instead of burying their heads in the sand and perpetuating inflexible bureaucracies. In the UAE, the prime minister and ruler of Dubai, as well as the federal interior minister, have long been incapacitated by ill health, one of the deputy prime ministers is dead and the term of the central bank governor has expired, but the country's rulers are too embarrassed or unconcerned to replace them.

It would be wrong to say that there is intense pressure for change in Saudi Arabia or the UAE. Pre-invasion Kuwait was different. The pro-democracy protesters organising demonstrations from their Mercedes car telephones were far from being hungry revolutionaries. They were the privileged elite but they wanted more say in an administration which they perceived to be tainted by corruption and authoritarianism.

The Gulf crisis has already led to a more open policy on the dissemination of news, particularly in the once-secretive kingdom of Saudi Arabia, but a substantial move towards representative democracy is another matter. King Fahd once talked of a national consultative council but nothing came of the idea. In the UAE there is a Federal National Council, a sort of parliament which questions ministers, but its members are appointed and federalism is weak among the various emirates.

Bahrain had a short-lived National Assembly dissolved by the emir in 1975, while Sheikh Jaber al-Ahmad al-Sabah of Kuwait disbanded his country's National Assembly in 1986 (the recent demonstrators, from among the mere 65,000 enfranchised Kuwaitis, were calling for its restoration). In both countries the ruling families argue that these parliaments with limited powers simply became platforms for abuse, where over-frank debates threatened relations with sensitive neighbours, such as Saudi Arabia. "Attempts at democracy have been made and further developments were in the offing," says Sheikh Ali Khalifa al-Sabah, the Kuwaiti finance minister in exile. Supporters of the assemblies say they were a check on corruption and mismanagement.

The forces ranged against western-style democracy in the Gulf are powerful. Rulers believe they have little to gain and much to lose if they open the door to genuine representation. In Saudi Arabia and the UAE, generous social welfare systems have kept discontent to a minimum and it is only the intelligentsia who give the issue much thought. Gulf governments place a higher priority on placating or suppressing Islamic fundamentalism than on democratic expression.

"I believe in democracy like in England or France," says a civil servant who belongs to one of Dubai's leading families. "That's my goal. But I recognise it might not be reached in my lifetime." Dubai is tolerant and easy-going, but he feels it essential to preserve Arab rule in an emirate teeming with foreigners and long-standing residents of Iranian origin. "We will keep the ruling family in power because they will keep this country's Arab identity."

Saudi Arabia and Kuwait have substantial Shia Moslem minorities which harbour a range of political, economic and religious grievances. Bahrain's Sunni Moslem rulers have almost no room for manoeuvre because most of the native population are Shias and many of them look to Iran for inspiration. In present circumstances, rule by the al-Khalifa family is incompatible with democracy, however accessible Sheikh Isa, the emir, may be at his twice-weekly majlis. Sheikh Khalifa, the prime minister, is said to have had a number of stormy meetings with members of leading Bahraini families who were demanding more influence over the way the country is run.

Even those Gulf Arabs most enthusiastic about political reform are at pains to point out that modern economic and social development – let alone modern political thought – were almost entirely absent on the Arabian peninsula only 30 years ago.

Mr Yusuf Shirawi, Bahraini industry minister, urges westerners not to preach about democracy. "The British system as we know it matured in the mid-19th century," he says. "It took several hundred years and the industrial revolution. We don't need several hundred years, but we do need time."

OBSERVER

Portrait of a nation

■ As markets become more global, national character traits that influence countries' buying habits are of growing commercial concern. So even non-British readers may find interest in the British personality as shown by tests organised by consultant psychologists Saville and Holdsworth on 3,500 adults in assorted parts of the UK.

What may seem surprising (if not incredible) from abroad, is that four-fifths of us consider ourselves intelligent. Almost as many, 78 per cent, are happy with life on the whole.

But that does not stop 30 per cent from feeling over-stressed. Moreover a full third of us have personal problems that hinder our work – which, since it compares with only about 10 per cent of other nationalities who have been tested, is scarcely a good omen for UK productivity.

Besides identifying traits across all 3,500 people in the sample, the study showed up clear variances between sub-groups who take different newspapers. Here are sketches of a couple of them:

Compared with the average Brit, group A are easily managed, being much happier to follow than to take the lead. Unimaginative, they strongly dislike new challenges, perhaps because they are profoundly pessimistic. They have very little interest in or care for other people, and are not concerned to persuade them to change their views, paying scant heed to anyone else's opinion anyway. Nor are they curious about or critical of ideas or the arts.

Group B are harder to manage, being far keener than the average Brit to take charge of events and to argue other folk round to their point of view. They have a pronounced liking for planning in advance, setting themselves tough goals, and for dealing logically with statistical data and the like. They are optimistic and relaxed, staying cool under pressure and not worrying when mishaps occur. They're also strong, but less markedly so, in social confidence, competitiveness, and in preferring novelty to routine.

Quiz-devotees might like to guess which papers the two groups read. The answers will be given later on.

King cross

■ Much umbrage was taken in Paris when King Hassan of Morocco abruptly cancelled an ambitious celebration of his country's culture to be staged throughout France over the following 10 months.

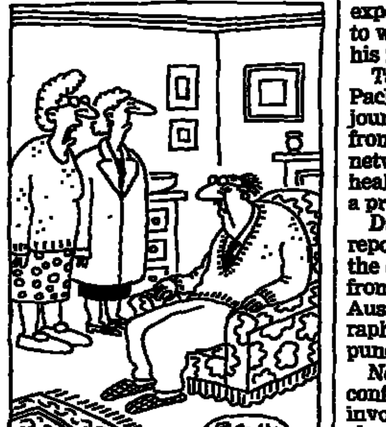
The aim of the series of concerts, exhibitions and so on had been to promote the North African state's image. President Mitterrand as well as the king had been due to grace the opening spectacular on the Champ de Mars.

But the French seemed placated when Morocco blamed the cancellation on the crisis in the Gulf.

It now transpires that there was another reason for Hassan's decision. He is infuriated by the runaway success of the book Notre Ami Le Roi, which paints an unflattering portrait of the monarch's rule and illustrates the lack of respect for human rights in Morocco. Since publication a month ago, the book has sold 60,000 copies to go second on the list of best-sellers in France.

That is much to the surprise of its publishers, the prestige house of Gallimard. The author is Gilles Perrault whose book L'Orchestre Rouge, about Soviet spy networks in German occupied Europe during the Second World War, made him a household name.

The man who checked the "legal" facts in proof form,



"Ian won a Cliff Richard look-alike contest in the Sixties."

Maitre Georges Kiejman is one of the best known lawyers in Paris. He is also a close friend of Mr Mitterrand and, since October 1, the French minister of justice.

Who reads what

■ The answers to the question in my opening item are:

Group A take the Sun.

As for group B . . . since you're reading this, if you're British, you're one of them.

Back in form

■ Kerry Packer, the Australian media tycoon recovering from a heart attack, has offered to pay half the A$5m cost of fitting New South Wales's ambulances with machines to restart seized hearts.

Nick Greiner, the state's premier, said Packer had telephoned him to offer the money "in his own inimitable way" as a thank-you to ambulance staff who restarted his heart when he collapsed at a polo match at Warwick Farm, in western Sydney.

Packer appeared to have returned to his normal rude health when he arrived unexpectedly at Warwick Farm to watch a match including his 23-year-old son Jamie.

Television shots showed Packer in confrontation with journalists – including some from his own Channel Nine network – asking about his health following his week in a private hospital.

During the exchanges, he reportedly removed a film from the camera of a photographer from one of Rupert Murdoch's Australian papers. The photographer was said to have been punched by a Packer aide.

New South Wales police confirmed that an incident involving Packer had taken place at the polo ground, but said no one involved had placed a complaint.

Left behind

■ The Soviet leaders are not alone in being taken aback by fast-changing events in their domain.

For instance Sundridge Park Management Centre, part of PA Consulting Group, has just issued a press announcement of the centre's "major role in the implementation of the 500-day Shatalin plan for reforming the Soviet economy".

Its arrival coincided with our Moscow correspondent's report that the plan is virtually dead now the government has approved big rises in wages and prices of staple foods.

Job lot

■ Meanwhile, the 20 per cent of Soviet workers estimated to face redundancy under Gorbachev may not be enough.

Ordinary Soviet citizens have long been saying that for every job in their country, there are four employees. The first one does it, the second sleeps, the third undoes what the first one has done, and the fourth does it again.

Long, hard road to wage restraint

Workers will not sacrifice themselves to cushion the UK's entry to the ERM, says John Gapper

As sterling this morning enters its second week of being traded inside the European Monetary System, unions representing 27,000 car workers will stake a claim to more of it. Rover Group's manual employees got a 5 per cent rise last year. They want a double-figure rise this time to match one at Ford which is likely to exceed 12 per cent.

Mr Ivor Braggins, a union convener at Rover's Cowley plant, says workers there have no time for the argument that they should cut wage demands to help cushion Britain's entry into the EMS exchange rate mechanism. "I don't think they will give any consideration to that," he says. "They take the view that they have been reasonable and responsible, and they deserve this rise."

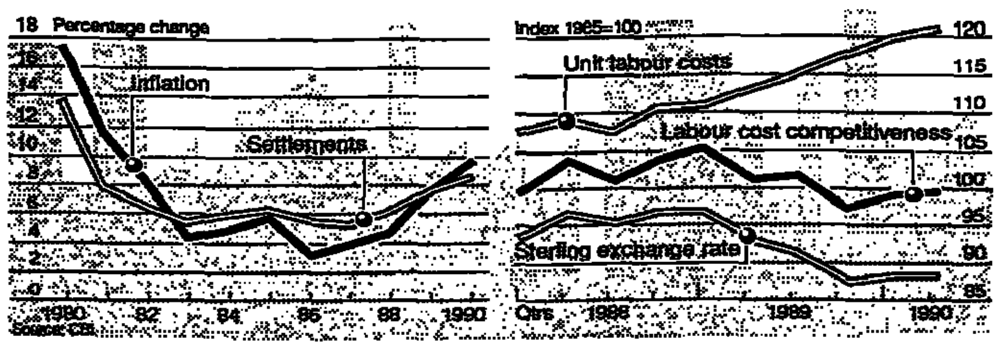
Full membership of the EMS could deliver the biggest shock to British pay bargaining since the clamp on monetary growth of the early 1980s. As unit wage costs have risen in the past two years, sterling has depreciated enough to ease the problems of companies trading goods abroad. But sterling remains at a high level against the D-Mark, and ERM entry will remove any easy escape from damage to trade caused by Britain's persistently strong real wage growth.

"If ERM entry is not to be a disaster, there has to be an adaptation of wage bargaining, and that is most likely to come in the traded goods sector," says Mr David Currie, professor of economics at the London Business School. Yet ERM entry is only one of many pressures in the autumn bargaining round. Even if unions were compliant, companies would have reason to avoid a pay squeeze.

Despite high unemployment, many parts of the British labour market have become overheated in the past three years. Ford is offering electricians in Scotland relocation packages to move south and ease its recruitment difficulties at Dagenham and other plants. An engineering company that tries to hold down wages of skilled manual workers to avoid price rises risks their simply walking away.

Apart from the scarcity of skilled workers, manufacturing companies have become used to conceding high wage rises in return for improved productivity in the past decade. The shock of the 1979-82 recession emerged in rising unemployment rather than falls in real wages. Pay rises stayed higher than inflation in the mid-1980s, with earnings up 18.7 per cent between 1988 and the start of this year.

All this bodes ill for the prospect of ERM entry delivering wage moderation rapidly enough to avoid job losses. "The British labour market has confounded optimists for years. Monetary targets were supposed to do the job of ERM in the early 1980s, but they were completely ignored until unemployment loomed," says Mr Peter Spencer, chief economist at Shearson Lehman Brothers.



The consensus among union leaders is that wage claims will only fall when the retail price index falls, despite current interest rate cuts. Mr Braggins' Transport and General Workers Union is sticking to "inflation plus" claims. Mr Eric Hammond, leader of the EETPU electricians' union, says high inflation leaves an "afterglow" which influences wage claims for months afterwards.

'The adaptation of wage bargaining after ERM is most likely to come in the traded goods sector'

"Between now and Christmas, ERM entry will have little or no effect on pay. Until inflation comes down, anyone who expects a reduction in pay demands is living in a fools' paradise," says Mr John Edmonds, general secretary of the GMB general union. He believes the ERM will only bite next year as unemployment rises because of the "disastrously high" rate at which sterling has entered.

An ERM squeeze in the first half of next year would coincide with one of the heaviest periods in the year for pay bargaining. The Confederation of British Industry says pay growth must be halved to achieve an acceptable 2 per cent annual rise in unit labour costs. The only alternative would be an unlikely return to productivity growth at the exceptional level of the mid-1980s.

Apart from the labour market's history of obstinacy, there are reasons to think the required fall in earnings growth will only occur after a big rise in unemployment:

● Services: The decline in Britain's manufacturing base in the early 1980s has left only 22 per cent of workers employed there. Most work in services which are not tradeable abroad, and so not directly affected by ERM entry. Even if *the discipline of ERM membership* forced down earnings growth in traded goods, the effect would take time to flow through to these employers.

A knock-on effect also assumes that pay settlements for workers producing traded goods remain at the leading edge of the "going rate" for pay. That has been questionable in the past two years, as service companies have raised youth rates and improved pay for female-dominated grades in the face of labour scarcity. Earnings growth in services has outstripped manufacturing.

Earnings in banking and finance were rising at 12.1 per cent in May, and those in food and drink at 11.8 per cent, while the rise in engineering was only 8.7 per cent. Mr Alastair Hatchett, of the Incomes Data Services research group, says wage rises in traded goods might be forced down by ERM entry without earnings growth in the whole economy falling significantly.

● Skills: Companies surveyed by the CBI in August said the recruitment and retention of employees was the second most important upward pressure on pay after the cost of living. Although the rise in unemployment has eased competition for labour, technical skills are still at a premium. The CBI has advised members that rises for skilled workers will have to be "ringfenced" from general awards to cut earnings growth.

Though the rise in unemployment has eased competition for labour, technical skills are still scarce

The demand for skills is shown in the New Earnings Survey of pay levels in April. The earnings of bricklayers had risen 16.6 per cent on the previous year, those of maintenance fitters 13.3 per cent, and heating and ventilating fitters 13 per cent. White-collar and professional skills were also in demand, with the wages of building site managers rising 13.9 per cent, and accounting clerks 12.4 per cent.

"There is just not the same echo of unemployment as in the past," says Mr Hammond. "Skilled men are still at a premium, and they will say 'If you cannot employ me here, there is someone else nearby who can.'" He believes a fall in wage pressure will require skilled manual workers to lose their belief in "the essential buoyancy" of the labour market. This will only come with higher unemployment.

● Unions: Union membership is higher in the sectors which will be most directly affected by ERM entry. Union density – the proportion of workers in unions – stands at 42 per cent in metal goods engineering, but only 14 per cent in the largely non-traded retail distribution and hotel sector. A change in wage behaviour would require a new commitment from unions in the sectors where they are strongest.

That seems unlikely in the short-term, although union leaders emphasise their willingness to improve productivity. "*Nothing has changed,*" says Mr Gavin Laird, general secretary of the Amalgamated Engineering Union, "We have always accepted the idea of payment by results." Mr Edmonds says the emphasis must be put on reducing unit wage costs through work flexibility rather than depressing real wages.

Unions would face considerable difficulties inducing wage moderation even if they wanted to. Mr Hatchett talks of the labour market becoming increasingly "unstable" over the past few years as national bargaining structures have broken down and self-employment in industries such as construction has grown. The government's push for wage "flexibility" has loosened centralised control.

There are some signs of *wage pressure easing*. A CBI survey of pay settlements in 1,000 manufacturing companies showed a fall from 8.9 per cent in the second quarter of this year to an estimated 8.5 per cent in the past three months. This was the first fall in settlements since the start of 1988, and could show that the economic slowdown, along with a rise in unemployment, is reducing wage pressure.

Full membership of the EMS can hardly fail to influence wage bargains in exposed companies eventually. "If it becomes more difficult for a company to sell products, we know that will feed its way back to our members," says Mr Laird. But the prospect of the EMS inducing widespread wage moderation while the labour market remains overheated and inflation high is slim. It is likely to be a long and painful haul.

LOMBARD

The ERM – what we can learn from Spain

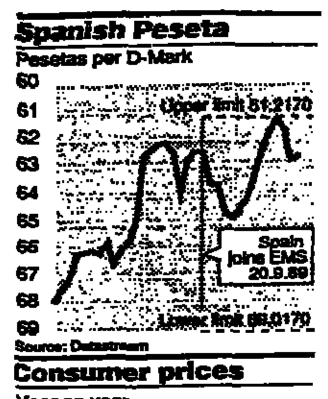
By Samuel Brittan, recently in Madrid

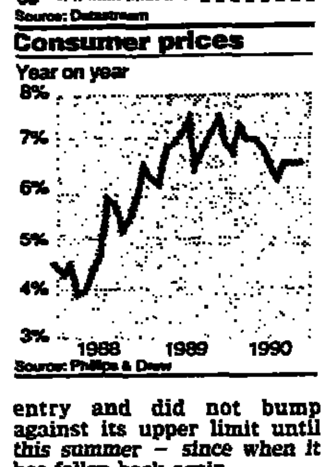
Spain has achieved a prominence in European monetary matters hardly seen since the arrival of New World gold and silver in the 16th century. It was at a summit in the Spanish capital in July 1989 that the British government enunciated the "Madrid conditions" which, when suitably stretched, provided a face-saving formula for Mrs Thatcher to accept British membership of the ERM.

Spain itself then announced its own adhesion under the same 6 per cent margin which Britain has subsequently adopted and which had been pioneered by Italy in 1979. Moreover, it was the Spanish finance minister, Mr Carlos Solchaga Catalan, who recently ruffled the feathers of EC Commission president Jacques Delors by proposing a five-year transitional period before full monetary union is reached and by suggesting that the British "hard Ecu" might be used in the interval. The Spanish government argues that a substantial transitional period before the final third stage of monetary union was envisaged in the Delors report and that it is Brussels that has tried to force the pace. It is committed to the single European currency and has embraced the "hard Ecu", not because it is sold on its technical attractions, but because it would involve an embryonic European central bank.

But Spain is important for another reason. The opponents of ERM membership have used the experience of the peseta in support of their view that the ERM is "half-baked". They cite Spain as the paradigm example of the tendency of currencies with high inflation to move to the top of their bands under the influence of high interest rates. Moreover, the existence of the upper limit is said to inhibit the Spanish authorities from raising interest rates to the full extent required to achieve their anti-inflation goals, despite the continued existence of exchange controls.

Sterling's first week in the ERM has not borne out these fears. But it is far too early to put aside the danger of a peseta-type problem. The peseta itself fell initially on ERM entry and did not bump against its upper limit until this summer – since when it has fallen back again.





Unfortunately opponents of the ERM rarely stop to ask how the Spanish authorities *themselves view their own experience*. This was a subject on which I cross-examined closely both the finance minister, Mr Solchaga and Mr Mariano Rubio Jimenez, the governor of the Bank of Spain. They were both adamant that they had no regrets and that outside the ERM they would have had more difficulty in pursuing a tight monetary policy.

As the chart shows, Spain has allowed the peseta to rise over the past few years to put pressure on employers to resist inflationary pay demands. But high does not mean that the sky is the limit. The Spanish government has not been prepared to see the exchange rate soar as it did in Britain in the early 1980s when 2m jobs were lost in manufacturing.

This being so, Mr Rubio is convinced that outside the ERM his ability to contain high interest rates would have been limited by the need to prevent the peseta appreciating. The ERM upper limit has put a dampener on any speculative gains from moving funds into pesetas. The holders of international funds face the definite risk of a downward movement in the exchange rate within the 6 per cent band – not to speak of possible realignments – to balance against the interest rate premium. (Nobody expects the peseta's central rate to be realigned upwards.) Mr Solchaga also expects the economy to cool off and thus reduce the burden on interest rate policy.

It is also a myth that Spain's inflation rate has increased under the ERM. It was already rising under the influence of a unsustainably rapid boom at the time of ERM membership and reached a peak of 7.4 per cent at the end of 1989. Since then it has fallen to 6.5 per cent. Some rebound is unavoidable, as in every other country, because of rising oil prices. But if this subsides, Mr Solchaga *hopes to secure an inflation* rate of 5 per cent in the course of 1991.

Spanish economists disagree as much about exchange rates as other economists. *The argument* is not so much about the ERM itself but about whether the peseta should have been allowed to rise higher for *counterinflationary reasons*. Sceptics remind one that exchange controls have had to be tightened and credit controls imposed to put a dampener on the currency. But the Bank of Spain insists that an early start can be made on dismantling these measures well before the 1992 deadline, and indeed a start made on narrowing the ERM margin towards the normal 2¼ per cent – both areas where Italy has led the way.

If one tries to set aside one's preconceived views, the Spanish experience is not decisive either way for the ERM argument. The ability of high inflation countries inside the ERM to maintain differentially high interest rates depends on the incomplete credibility of their no-realignment aspirations, which certainly exists both for Britain and Spain. But the principle of the matter clearly needs more consideration.

LETTERS

Key issues for S Africa

From Mr Bill Morris.

Sir, You were right to argue ("Time to end sanctions," October 10) that the South African government must come together with the African National Congress (ANC) to agree a timetable for free elections and removal of international sanctions. But there can be no good argument for removing sanctions until that agreement is achieved.

There is no guarantee that democracy will be achieved. Whatever Mr de Klerk's intentions may be, there is opposition to him in his own party, to his right, and in particular in the army and police. For example, the ANC has consistently argued that the police are collaborating with elements of Inkatha in the spate of murderous attacks that have been taking place recently.

When the transition to democracy does come, there is unlikely to be any thanks given to the British government, which has spent years trying to frustrate both internal and international efforts to end apartheid. If the British government adopted the same attitude towards sanctions on South Africa as it rightly does on Iraq, then we might see the end to both these conflicts in the near future. Clearly, a premature move to abandon sanctions will only worsen future relations with a free South Africa.

Bill Morris,
deputy general secretary,
Transport and General Workers Union,
Transport House,
Smith Square, SW1

From Mr N.J.R.J. Mitchell.

Sir, What a contrast between your enlightened editorial comment (October 10) and the negative and myopic remarks of Mr Segal (Letters, October 12).

Mr Segal cleaves to a rapidly declining minority who appear not to have realised that change in South Africa is irreversible. That is now yesterday's argument. Irreversibility is accepted by spokesman for all the major players.

The key issue now is to revitalise the economy. Mr Nelson Mandela and the ANC publicly recognise the need for international investment and that a prerequisite is to establish confidence in the safety of investment and the freedom to repatriate reasonable profits.

The missing ingredient, so far, has been urgency. There are pressing needs to improve education and healthcare, provide housing, create jobs and accelerate the process of reducing the *unacceptable imbalance* of wealth between the white and black communities.

The population increases by over 22 per cent a year and the economy needs growth rates of around 6 per cent. South Africa must project an attractive environment for investment before eastern Europe emerges from its present confusion.

Mr Segal and those who think like him are gambling with the future not only of 35m South Africans but of 100m people in southern Africa.

N.J.R.J. Mitchell,
director-general,
British Industry Committee on South Africa,
45 Great Peter Street, SW1

A dividend and share price test

From Mr J.P. Gurney.

Sir, According to the well-known analysis of Miller and Modigliani, dividend policy has no effect on the share price of a company. However, corporate managements and institutional investors clearly have no faith in that conclusion, since they continue to regard dividend decisions as matters of some importance. There is also an alternative analysis, which I published in the Journal of the Society of Investment Analysts (January 1984). This indicates that dividend policy can, and usually does, influence the share price.

A controlled experiment is needed to resolve this disagreement. It is difficult to arrange such an experiment, but an opportunity is approaching with the flotation of 12 regional electrical distribution companies in November. Discussion so far has envisaged that all would follow the same dividend policy. It would be extremely interesting if one of their number were to follow a different policy.

It could pay out a smaller proportion of its earnings in the form of dividends than the others. This would mean a lower initial dividend yield, but higher future growth of earnings and dividends because of the higher retentions. We could then see how its value compared with that of the other electrical distribution companies after the initial period of active trading.

The results of this simple experiment would be of significant economic and market importance and, I believe, there would be no cost to government. It might even increase the number of potential investors interested in electricity privatisation.

J.P. Gurney,
director,
Allied Dunbar Asset Management,
9-15 Sackville Street, W1

The government and the figures

From Mr D.E. Midgley.

Sir, Mr Weale (Letters, October 10) refers to the view gaining ground that the economic mismanagement of 1987 and 1988 was attributable to inaccuracy in the statistics and was not therefore the government's fault. He then provides reasons why the government should stop blaming the statisticians.

There is a much simpler angle to this controversy. The government is pressing as many nationalised bodies, departments and agencies as possible to adopt commercial practices and disciplines. No commercial body can operate without adequate accounts and management information. To attempt to do so in the business world would be regarded as grossly incompetent and the situation would be rapidly rectified.

So perhaps a more apt slogan on this issue is that the government should practise what it preaches.

D.E. Midgley,
Pellinore,
Sleepers Hill,
Winchester, Hampshire

Profession that only responds to pressure, criticism and threats

From Mr Prem Sikka.

Sir, Michael Lickiss (Letters, October 10) appears to have a short memory. Our profession only responds to pressures, criticisms and threats.

Scandals such as Rolls Razor and Fire & Auto did not persuade the Institute of Chartered Accountants in England and Wales (ICAEW) to take any interest in accounting standards. With the government-sponsored merger booms of the 1960s, accounting practices came under increasing scrutiny and were found deficient. The Pergamon/Leasco and GEC/AEI mergers exposed the tip of an iceberg.

The resulting press comment and Stock Exchange concern generated pressures for codification of accounting and auditing practices. Leading industrialists were critical of auditing practices and wrote to the ICAEW. The Trade and Industry Department (DTI) also pressed the profession to take its responsibilities seriously.

The profession followed a divide and rule strategy. The preparers of financial statements were blamed for the problems. Under pressure, it set up the Accounting Standards Committee but nothing equivalent was set up for auditing. The ICAEW's statement of intent in December 1989 made no mention of concern with auditing practices.

It took the secondary banking crisis and a property collapse, which eventually cost some £3,000m, to generate pressures for the creation of the Auditing Practices Committee (APC). A large number of critical DTI reports made the shortcomings visible to all.

In the 1970s, scandals such as Pinnock, Vehicle and General and London & County made headlines. Even then the ICAEW did nothing. The then trade secretary, Mr Edmund Dell, called in the presidents of the four auditing institutes and personally admonished them. The DTI considered setting up a Securities and Exchange Commission-type body, but with the government seeking loans from the International Monetary Fund, rescuing the banking and property sectors and the economy generally, this was not pursued. Faced with pressures from the press, industrialists and government, the profession was obliged to set up the Joint Disciplinary Scheme and an APC backed by the Consultative Committee of Accounting Bodies.

Perhaps *Mr Lickiss* could explain why the public should have any faith in a profession which is backward-looking and reactive.

Prem Sikka,
research director,
Accountancy Research Group,
Polytechnic of East London,
Longbridge Road,
Dagenham, Essex

FINANCIAL TIMES
Monday October 15 1990

Lebanon, France and Syria in dilemma over future of Christian leader

Diplomats battle over defeated Aoun

By Lara Marlowe in East Beirut

GENERAL Michel Aoun's decision to flee to the French ambassador's residence in Beirut after his headquarters at Baabda were bombed on Saturday has plunged France, Lebanon and possibly Syria into a potentially embarrassing diplomatic dilemma.

At the same time his removal from the presidential palace has removed the greatest obstacle to the reunification of Lebanon, and spawned an immediate improvement in confidence.

The Christian Gen Aoun, his immediate family and the remnants of his military entourage, were yesterday sheltering inside the residence of Mr René Ala, the French Ambassador.

But although France offered the general political asylum on condition he surrendered with minimum bloodshed, the Lebanese government of President Elias Hrawi has said it wants to put the rebel general on trial for mutiny and misappropriation of government funds.

A visit by Mr Ala to Mr Hrawi yesterday apparently failed to resolve the issue, and the Lebanese president said that any bid to smuggle Gen Aoun out of the embassy would create a crisis with France. All the indications yesterday were that he might be in for a long stay.

"I saw Aoun arrive," said one Lebanese embassy employee. "He was shaking with fear because of the bombardment. He thought he could hold out for two weeks in Baabda. He didn't even fight."

Twenty-four hours after the General's surrender, smoke was still rising from the brush fires sparked in the ravines of the Metn hills by the Syrian bombardment.

Eight hours of continuous bombardment had exacted a terrible toll: at least 160 dead and more than 800 wounded.

Several hundred Lebanese Christians stared blankly yesterday from the parking lot at the gutted ministry of defence building at Yarze, waiting to discover if the bodies of their relatives were inside.

An old woman and her daughter went from one Syrian officer to another outside the ministry, pleading and weeping. The woman wore a black dress and her bare feet made her all the more pitiful.

Hundreds of the 10,000 Lebanese army soldiers loyal to Gen Aoun have been taken prisoner. Many more have gone into hiding.

At Mar Takla, a young army lieutenant in civilian clothes stood in front of the French ambassador's residence, a suitcase in each hand.

He had been inside Gen Aoun's headquarters when the Syrians bombed it. "I am going to France with the general," he said, "Lebanon is finished. The Syrians are animals."

The Christians of East Beirut did not give their traditional welcome of throwing rose water and rice on to the Syrian troops who entered their half of the city again after a 12-year absence.

Along streets carpeted with broken glass, the Syrians smiled and posed for photographers. Their trucks were piled high with mattresses and crates of food. This time, they had come to stay.

A French guard mines the walls of his embassy in Beirut

Airbus dispute likely to go to arbitration

By Paul Betts, Aerospace Correspondent, in London

THE DISPUTE over who should pay the $200m costs incurred by the European Airbus consortium because of a four-month engineering strike at British Aerospace in the UK appears set to go to arbitration.

The industrial action earlier this year badly disrupted aircraft production at Airbus by halting the supply of wing sets manufactured by BAe at Chester, north west England, for final assembly on aircraft in Toulouse in south-west France.

BAe and the three other Airbus partners, Aerospatiale of France, Deutsche Aerospace, and Casa of Spain, have failed to reach a settlement over the issue, which has continued to strain relations within the consortium.

BAe said it was still talking with its Airbus partners in an attempt to resolve the dispute. But the other three, especially Aerospatiale, have become impatient with the lack of progress and are threatening to take the issue before the International Chamber of Commerce in Paris for arbitration.

The repercussions of the strike are still visible at Toulouse, where aircraft fuselage sections wait in rows along the tarmac for their wing sets. Airbus partners have calculated the cost of the strike at about $200m.

This amount includes the cost of the programme to catch up with production targets. Output of A320 narrow-body aircraft will be stepped up from seven aircraft a month before the UK strike to 12 a month. This year's original target was 10 a month. Airbus expects to catch up completely by next May.

BAe's partners claim that under article seven of the Airbus statutes any participant that causes a loss to the others by not fulfilling its share of the work must compensate the others. Under this rule, BAe would face 40 per cent of the costs of the strike to the consortium, or around $80m according to the latest estimates, instead of 20 per cent which is its stake in the Airbus programme.

BAe has retorted that article seven does not apply because a strike is a case of force majeure.

After a rowdy public confrontation at the time of the strike, the four partners agreed once the industrial action was over that, to avoid further embarrassment, they would "keep the row inside the family", according to one partner.

But frustrations have been growing, especially in France, because of the failure to reach a compromise. The increasingly uncertain outlook for the aerospace industry also appears to have put pressure on the Airbus partners and toughened their overall stance on strike compensation.

Both Aerospatiale and Deutsche Aerospace have become increasingly concerned by the impact of the lower dollar on their Airbus activities, coupled with the combined effect of soaring oil prices and the threat of recession.

US budget proposal

Continued from Page 1

defeated agreement, though the Senate version does not include "growth incentives" or tax reliefs for business regarded as essential by the White House.

Senator Bentsen said yesterday that, while he wasunable to secure an increase in the top marginal rate, his committee's package was progressive and did ensure that "those making the highest income will pay the highest increase in tax."

Congressman Dan Rostenkowski, the Democratic chairman of the House Ways and Means committee, said that, while there would be the compromises in the conference, he wanted to ensure that upper income Americans shoulder their responsibility.

Networks to produce Soviet TV history using state archives

By Alan Friedman in New York

ABC Television, one of the three leading US networks, has achieved an unprecedented deal with a Japanese partner and the Soviet Government to produce the first uncensored television history of the Soviet Union.

It will include previously secret Soviet footage.

The deal – named The Twentieth Century Project – calls for ABC, in partnership with Japan's NHK, to produce up to 100 hours of documentaries for Soviet television, chronicling the history of the Soviet Union since the start of this century.

For the two television companies the project is a coup in business and journalistic terms. For the government of Mr Mikhail Gorbachev it represents yet another quantum step in the process of glasnost, especially since previously secret Soviet state archives are expected to be made available to the producers.

Financial terms are not known, but it is believed that the value of the project, together with eventual international syndication rights, could be worth up to several hundred million dollars.

Executives close to the negotiation in New York yesterday said the deal had been formalised in Moscow several weeks ago, but it has not yet been publicly announced.

It has been learned that a key feature is that the Soviet Government will authorise access to the Soviet state picture archives.

It is thought likely that the archives include hitherto secret documentary materials relating to the role of the KGB in Soviet politics and society.

Although Moscow's initial interest in the project was in its domestic broadcast, the international sale of the television material could eventually rank as a blockbuster product. It could then rival the much-coveted rights to the Olympic Games in terms of its money value and audience potential.

Questions raised about UK's entry to ERM

continued from Page 1

Mrs Thatcher had shown herself "thoroughly unconvinced" of the merits of a more European approach.

These statements-which are indicative of broader misgivings of Britain's future European commitment in Germany-contrast sharply with the enthusiastic welcome given to Britain's decision to join the exchange rate mechanism last Monday both by the Bonn Government and the Bundesbank.

This gloomy interpretation of Britain's motives has been strengthened by the strident hostility towards monetary union displayed last week in Bournemouth, southern England, at the Conservative Party Conference by Mrs Margaret Thatcher, the British prime minister.

German concern at Mrs Thatcher's continued anti-Europeanism is likely to fuel a growing debate within the Conservative party over the government's attitude to Europe ahead of December's inter-government conference on monetary union in Rome.

Sir Geoffrey Howe, deputy prime minister, told a fringe meeting that there was a legitimate monetary dimension to the Community. Others in the Cabinet have expressed fears about Britain being isolated at the IGC.

The Bundesbank, like the politicians in Bonn, doubts whether the EMS decision signals that British policy will become more "Europe-minded".

Britain still appeared to oppose the goal of monetary union, whereas the Bundesbank's line was "Yes, but," the official said.

He said that the two reasons for Britain's EMS step were plainly a bid to take the initiative in British politics, and the need to avoid total isolation at the December Rome conference.

"I am not sure whether the EMS membership makes the whole problem of EMU any easier," he said.

If Britain had not joined the exchange rate mechanism, it would have been battling both against the EMS and against EMU, the Bundesbank official said. "Fighting on two fronts is too much," he added.

The Bundesbank also has more specific concerns. The central bank believes that, because of the size of international trading and asset flows in sterling, UK membership of the exchange rate mechanism will add to potential EMS strains.

Previously, the D-Mark was the only large-scale internationally traded currency in the exchange rate mechanism. The official said, "Before, we had a monopoly situation. Now there will be a new quality."

There is now a belief in Bonn and Frankfurt that Britain's entry into the ERM could make the inter-government conference on monetary union in Rome in December more rather than less complicated.

The German questioning coincides with separate EMU discord simmering between the French and German governments.

Apartheid retains a petty hold in rural Transvaal

By Patti Waldmeir in Bethal, Eastern Transvaal

TODAY, for the first time in history, white South Africa is to open all its public swimming pools, libraries and parks to blacks.

Racial segregation of public amenities, known as petty apartheid, becomes illegal today under a law passed by Parliament last June.

But in the ultra-conservative farming town of Bethal, as in scores of other rural *dorps* (villages) throughout the Transvaal, whites are far from ready to give up their ideal of racial purity. In the Bethal civic centre – where the hairstyles of the women secretaries are like their racial attitudes, 20 years out of date – Mr Johan de Beer, the town clerk, explains the town council's ingenious plan for keeping blacks in their place.

From today, the public library, which nestles behind the drab municipal hulk of the civic centre, will be free only for residents of Bethal. With residential segregation still in place, "residents" means whites. Mr de Beer points out that live-in domestic servants may qualify as residents.

Non-residents – blacks who live in the adjacent "location" of Emzinoni – must pay R500 (£100) a year for library membership. In the rabidly pro-apartheid towns of the Transvaal platteland, where many blacks are farm labourers, this fee exceeds the monthly income of the average family.

Ironically, the new rule may mean that even fewer blacks use the library after the scrapping of petty apartheid than before it. Previously, the librarian turned a blind eye while a handful of black university students consulted reference books. From today, they too will be barred.

Mr P.S. Marais, chairman of the town's management committee, defends the measure: "It's no longer legal to discriminate according to race. But we can distinguish between residents and non-residents." Mr Marais acts as spokesman for the town council, whose nine members all come from the ultra-right Conservative Party. "These facilities have been developed with ratepayers' money. They have traditionally been used by only whites, and whites want the status quo to be adhered to," he said.

Mr Marais claims the council has the support of 91.3 per cent of whites: this was the majority which voted against integration in a referendum last month. But when pressed, he admits that only 693 people voted in the poll, out of a white population of 10,500.

Bethal's councillors take comfort from the fact that many of the Transvaal's 101 other Conservative-controlled councils have taken similar measures. Cities such as Johannesburg and Durban anticipated the new law by opening facilities last year, and Cape Town amenities have long been integrated.

But in Sasolburg, near Johannesburg, only season ticket-holders will be allowed to swim in the municipal pool. Residents alone will be able to obtain such tickets. Live-in domestics, too, will be eligible, with the written permission of their employer; but the white "madams" of Sasolburg may not be eager to share the paddling pool with their maids.

The East Rand town of Springs has closed its swimming pools rather than share them with "people of colour", a popular euphemism in the language of apartheid. Conservative officials threaten many more will do the same, or bar blacks by using municipal regulations which allow the authorities to limit numbers and evict those who are deemed to cause a nuisance.

Pretoria says it will take a tough line on discrimination. "Any town council which discriminates against persons on the basis of skin colour will be liable for legal action," says Mr Hernus Kriel, provincial affairs minister. But it will be up to members of the public to take a local authority to court to challenge discrimination.

Until residential segregation is abolished, it seems a fair bet that Bethal will keep its lily-white library and park – for residents only.

De Klerk in UK, Page 3

THE LEX COLUMN

The A to Z of going bust

Over a quarter of UK quoted electronics companies, according to a recent and particularly doom-laden analysis of the corporate sector, are now at risk of failure. In contracting and construction the figure is 37 per cent. A total of eight quoted industrial companies are "beyond saving in their present form".

The basis for this prognosis is the Z-Score, a time-honoured technique developed in the US and adapted for the UK by Professor Richard Taffler of London's City University Business School. Z-Scores went out of fashion in the boom years of the 1980s; but as a measure of creditworthiness which lays heavy stress on the balance sheet as well as the profit and loss account, they perhaps deserve revival.

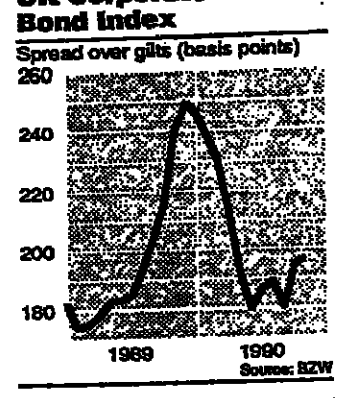
The basis of the method is to establish common characteristics for companies which have gone bust and to find out how far other companies conform to them. Typical measures include pre-tax profit to current liabilities, current assets to total liabilities and current liabilities to total assets. In the UK, according to Professor Taffler's company Syspas, a negative Z-Score is a necessary but not sufficient condition for getting into trouble. Virtually every company which goes under, gets taken over or undergoes major financial reconstruction shows a negative score beforehand. But of all those which show a negative score, 60 per cent go on to recover on their own.

It follows that the system is a better indicator of health than of sickness. Some of Syspas's findings are in that respect surprising, or at least at odds with the stock market. Neither Next nor Burton shows up as being in danger, their lack of profitability being offset by balance sheet strength. Nor, oddly enough, does Polly Peck, which suggests either that the system is nonsense or that the group's crisis is not primarily due to its financial affairs as depicted in the accounts.

The system also purports to be reliable on risky companies provided the risk is extreme. It claims to have scented trouble at the now bankrupt Parkfield, for instance, some time before the market did. It suggests similar conclusions about several major companies best not named. Even at a much lower level of risk, it can throw up conclusions at odds with the market. In the distribution sector, for instance, the food retailers rate as more risky than average, mainly because of their high capital expenditure and the fact that their balance sheets rely heavily on credit from suppliers.

UK Corporate Bond Index

Spread over gilts (basis points)



Source: BZW

Whatever the merits of the Z-Score system itself, this kind of approach points up the weakness of the 1980s style of investment analysis in which nothing matters except the rate of growth in a company's profits. At this stage in the cycle, companies are in trouble if their bankers say they are. For the risk-averse portfolio investor, it pays to follow the bankers' example and look at the more humdrum question of whether companies can pay their bills.

US banks

Last week's decision by Chemical Bank to follow Chase Manhattan's example and cut its dividend is another weary step in the long-term decline of the US money centre banks. For the hundreds of regional banks the story is the same: plunging results and stock prices, with real estate recessions now in Florida and New England on top of the mid-1980s woes in Texas and Arizona.

And yet so many of the US banks now showing the worst results have already spent so much of the 1980s being crawled over by management consultants and adopting new strategies. The common thread was the attempt to escape dependence on the mature, over-crowded, commodity-type mainstream banking business. Some, like Wells Fargo, have done it well. But the results for the industry have been patchy, and it is hard to see now what new ideas are to be had. Halfway through the decade, Chemical started slimming down staff numbers and carving out niches, such as New York/New Jersey middle-market banking, where it could be dominant. A further irony is the way some banks' strategies have backfired. A decision to get out of consumer banking and focus on big corporate clients, easily went sour in 1989 if the bank had huge tranches of bad debt from leveraged buy-outs.

Hence the notion, advanced by some at Citicorp, that the only hope now for banking profitability is for the industry to shrink itself by large-scale mergers. This is not a remote possibility. The catalysts in some cases are already there, in the shape of say Kohlberg, Kravis and Roberts, which owns 10 per cent of First Interstate Bank, or the New York investor Mr Larry Tisch, with 10 per cent of Bank of Boston.

Corporate bonds

It all seems depressingly familiar. UK corporate bonds have moved back to levels where their extra 2 percentage points of yield over long-dated gilts makes them look dangerously like junk, but where they appear to offer a long-term play. Last year, it was a combination of £4bn of supply and investor paranoia about event risk that sent corporate spreads past the danger zone, prompting warnings that the bonds were unduly cheap. Arguably the fear of event risk, defined in terms of highly-leveraged takeover bids or management buy-outs leading to possible defaults, was simply inappropriate for the vast majority of UK companies' debt.

Recently, the bonds have suffered badly from the knock-on effect of falling equity prices. Some of the rise in yields can be explained by the renewed fear that weaker companies might be unable to survive harsh economic medicine. Investors have also been unnerved by the tendency of ailing concerns to collapse rapidly; hence the huge spreads on property-related debt and well-known trouble-spots like Standard Chartered and Midland.

The obvious effect of high yields is that borrowing costs more, an easily overlooked hindrance to the liquidity and depth of the market. But it is worth asking how much further spreads might have widened without investors' and market makers' knowledge that a few healthier companies are still in the queue to buy back their heavily discounted debt and exploit a convenient tax loophole while it still exists.

For the last two years, the long-dated gilts market has been kept afloat largely by repurchases by a government seeking to utilise its budget surplus. The unsecured corporate debt market seems unable to break away from the problems of its grown-up brother.

WORLDWIDE WEATHER

UK today: mild with a southerly airstream covering the British Isles, but cloudy in Scotland, Ulster and northern England with heavy rain in places and windy. Southern England and the Midlands will start bright with showers later, but Wales and Scotland will be overcast.
Outlook: sunshine and showers in most places.

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Bordeaux	S	25	77	Dallas		–	–	Innsbruck	S	21	70
Algiers	F	27	81	Boulogne	F	19	66	Dublin	S	17	63	Inverness	S	16	61
Amsterdam	S	21	70	Bristol	S	18	64	Dubrovnik	S	27	81	Isle of Man	F	16	61
Athens	S	24	75	Brussels	S	21	70	Edinburgh	S	17	63	Istanbul	F	19	66
Bahrain	S	31	88	Buenos Aires				Faro	F	25	77	Jersey	F	18	64
Barcelona	F	21	70	Budapest	S	19	66	Florence	S	27	81	Johannesburg	C	19	66
Belfast	S	15	59	Cairo	S	29	84	Frankfurt	S	20	68	Las Palmas	C	26	79
Belgrade	S	23	73	Cape Town	F	18	64	Geneva	S	19	66	Leeds	S	18	64
Berlin	S	23	73	Cardiff	F	17	63	Gibraltar	S	24	75	Lisbon	C	21	70
Biarritz	F	25	77	Chicago		–	–	Glasgow	F	16	61	Locarno	C	20	68
Birmingham	F	19	66	Cologne	S	21	70	Guernsey	F	17	63	London	F	19	66
Blackpool	F	17	63	Copenhagen	S	15	59	Helsinki	S	14	57	Los Angeles †	C	17	63
Bombay	F	31	88	Corfu	S	28	82	Hong Kong		–	–	Luxembourg	S	19	66

		°C	°F			°C	°F			°C	°F			°C	°F
Madeira	F	22	72	Nairobi	F	26	79	Prague	S	19	66	Tangier	S	27	81
Madrid	F	23	73	Naples	S	29	84	Reykjavik	Sl	1	34	Tel Aviv	S	27	81
Majorca	F	27	81	Nassau		–	–	Rhodes	S	28	82	Tenerife	C	27	81
Malaga	S	23	73	Newcastle	S	17	63	Rio de Janeiro		–	–	Tokyo	C	24	75
Malta	C	28	82	New Delhi		–	–	Rome	S	28	82	Toronto †	S	5	41
Manchester	S	18	64	New York †	S	21	70	Salzburg	S	23	73	Tunis	S	29	84
Melbourne	S	19	66	Nice	S	23	73	S'Francisco †	S	11	52	Valencia	F	24	75
Mexico City		–	–	Nicosia	S	28	82	Santiago		–	–	Venice	S	23	73
Miami †	S	24	75	Oporto	R	21	70	Seoul	S	24	75	Vienna	S	19	66
Milan	S	20	68	Oslo	Dr	10	50	Singapore		–	–	Warsaw	S	18	64
Montreal †	C	11	52	Paris	F	23	73	Stockholm	C	9	48	Washington †	C	21	70
Moscow	F	6	43	Peking	S	24	75	Strasbourg	S	24	75	Wellington	C	18	64
Munich	S	22	72	Perth		–	–	Sydney	S	17	63	Zurich	S	20	68

Temperatures at midday yesterday † Noon GMT temperatures C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

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INSIDE

Australian exchange incurs A$23.7m loss

Heavy losses have forced the Australian Stock Exchange (ASX) into a rigorous cost-cutting programme including the deferral of non-essential capital projects and a reduction of services. The ASX went A$23.7m (US$19.4m) into the red for 1989-90, compared with a profit of A$9.5m in the previous year and forecast a further loss in the current year because of the depressed state of the stock market. Page 27

Golden shadow

Hanson's abortive attempt to sell 8.4m of its shares in Newmont Mining has been described by some analysts as "bungled" and "a débâcle". But why were potential investors put off? When Lord Hanson (left) launched the sale in August, the market picked up some important signals about the Anglo-American conglomerate's long-term commitment to its gold interests. These, and the failure of the price of gold bullion to break conclusively through $400 an ounce, helped bring about a failure which threatens to cast a shadow over gold equities in general. Page 26

Poland picks Paris

The Paris Stock Exchange is to help Poland create a new stock market in Warsaw before the end of next year. Régis Rousselle, chairman of the Paris exchange, and Mr Waldemar Kuczynski, minister for the transformation of property, will sign a co-operation agreement in Warsaw tomorrow only a few days after the New York Stock Exchange agreed to help Soviet authorities set up a market in Moscow. Page 27

In the balance

The Rank Organisation (logo left) will reveal today whether it has been successful in obtaining the final convertible preference shares in Mecca, the leisure group it acquired in August. About 15 per cent of holders of convertible cumulative preference shares in Mecca had still refused to accept Rank's terms last Friday. Page 26

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Troubled Suez picks Worms to lead recovery

By George Graham in Paris

COMPAGNIE Financière de Suez, the French banking, insurance and industrial conglomerate, has settled a damaging succession crisis with the nomination of Mr Gérard Worms as chairman.

The appointment puts an end to weeks of wrangling over who should succeed Mr Renaud de la Genière, whose recent illness had appeared to leave the group rudderless at a time when, with its share price falling by a third this year, Suez's rapid expansion over the last two years was beginning to look indigestible.

Earlier this year, Paribas, Suez's eternal rival, also went through a power struggle after failing in its FFr26bn ($5.1bn) takeover bid for Navigation Mixte, the industrial and financial services group controlled by Mr Marc Fournier.

Suez, in contrast, succeeded too well in its stock market battles, and is now suffering the consequences of successive if complicated conquests of Société Générale de Belgique (SGB), the Belgian conglomerate, and Victoire, the asset-rich French insurance company.

Some of the group's leading shareholders, especially Union des Assurances de Paris (UAP), the state-owned insurance company which besides a direct stake in Suez now controls 34 per cent of Victoire, have made it clear that they believe Suez to be strategically and financially unbalanced for an investment group, with all its resources concentrated on three assets: SGB, Victoire and Indosuez.

The succession battle pitched Mr Worms against Mr Patrick Ponsolle, his fellow managing director at Compagnie Financière, and against Mr Antoine Jeancourt-Galignani, chairman of Suez's principal subsidiary, the investment bank Banque Indosuez.

Mr Jeancourt-Galignani was named vice-chairman and Mr Ponsolle managing director with the promise of a board seat, apparently leaving out in the cold Mr Bernard Egloff, the third managing director at Compagnie Financière.

Suez's share price rebounded on Friday, rising FFr24.5 to FFr293 and valuing the group overall at FFr37.5bn. The company's shares have been shunned by investors, and the effect has been contagious – even companies like Accor, the hotel group of which Suez owns 11 per cent, have been marked down by stockbrokers' analysts.

Mr Worms, in his first statement as chairman, acknowledged that Suez's current share price showed shareholder satisfaction was not at its highest. He said an improvement in financial performance was the only way to ensure that Suez would keep its freedom to manoeuvre.

This improvement seems unlikely to come immediately, however. Although Indosuez is hoping its full-year results will match 1989's profits FFr1.03bn, Victoire is expecting a drop of around 14 per cent to FFr1.5bn, while SGB, suffering from the painful restructuring of its armaments subsidiary and a weak zinc price, has warned it has no hope of coming close to 1989's BFr16.8bn ($537m) of profits before exceptional items.

Boardroom compromise, Page 27

A whiff of caution from Japan

Tokyo's banks are lending less in the London market, writes **David Lascelles**

Last Friday's quarterly report by the Bank of England on the volume of lending in the London market contained a tell-tale statistic: loans by Japanese banks were down, even though overall lending was up.

The drop was small, from £34.7bn ($68.5bn) to £34.2bn. But it could signal the much-awaited cuts by Japanese banks following the collapse of the Tokyo stock market earlier this year. If so, it would bring relief for the London market where the Japanese have been the most aggressive players for some time, and where much of their overseas activity is concentrated.

The fall in Tokyo share prices has put a double squeeze on Japanese banks by reducing their capital, part of which consists of shares which they own in other companies, and by closing off the stock market as a source of new capital.

The phased introduction of the tougher Basle capital rules by 1993 is also forcing them to be more profit-conscious. The Japanese banks have about 8 per cent of the total UK banking market, including loans in non-sterling - a large enough share for a cut to have a noticeable effect. But some segments will probably feel it more than others, including wholesale distribution (where their share is 27 per cent), local government (33 per cent), and property companies (10 per cent).

The biggest impact would come in the London-based international lending market where Japanese banks have over a third of the business. Many Japanese bankers in London say they have received instructions from head office to raise their profitability, even if this means switching from the strategy of rapid asset growth which they have pursued for years.

Mr Katsumi Kawashima, Europe general manager of Sanwa Bank, Japan's fifth largest, says he expects his bank's assets to growth by 5-10 per cent a year compared to 20-30 per cent before. Mr Tadashi Natori, who runs the London branch of the Industrial Bank of Japan, says: "We are becoming more conscious of the return we obtain on our assets." What this means in practice is that Japanese banks will become more selective about their lending, and particularly about seeking wider margins in their loan pricing.

Bankers also say they intend to concentrate on their more lucrative markets, such as asset-backed finance and leasing.

Specialised finance is a priority, including aircraft, where banks like Mitsubishi Trust are big lenders and still see opportunities in spite of soaring fuel prices. A bigger concentration on fee-earning activities is also likely. Most Japanese banks have set up departments in London to advise clients on corporate finance and mergers and acquisitions. The market for interest rate and currency hedging services is another area: Sumitomo Bank has just opened a special London subsidiary to offer them. Fund management is clearly ripe for growth. Bank of Tokyo is leading on this with a London portfolio worth $1.7bn.

But Japanese bankers are wary of giving the impression that dramatic changes are afoot. For one thing, they say that the introduction of the Basle rules last year prompted them to begin reviewing their strategies long before the market fell. Mr Tomonori Naruse, Europe managing director of the Bank of Tokyo, says: "Everyone has been looking for two years. This is not a new thing."

JAPAN	Total assets $bn	Total equity $bn	Equity/assets
Bank of Tokyo	185.3	4.7	2.55%
Dai-Ichi Kangyo Bank	361.7	10.2	2.82%
Industrial Bank of Japan	240.8	8.1	3.35%
Mitsubishi Bank	328.3	9.5	2.89%
Sumitomo Bank	351.5	10.0	2.83%
US			
Citicorp	207.7	9.9	4.75%
JP Morgan & Co	83.9	5.8	6.88%
UK			
Barclays Group	164.5	9.2	5.57%
GERMANY			
Deutsche Bank	151.8	6.0	3.96%
SWITZERLAND			
Union Bank of Switzerland	98.5	6.0	6.14%

Source: Salomon Brothers/BCA Credit Analysis

If their lending from London is easing off, it may also reflect their caution about prospects in the UK. Another reason is their sensitivity to suggestions that they are about to ditch clients or cut back credit lines – an impression reinforced by the problems which Eurotunnel had during its recent £2bn refinancing when the Japanese were slow to respond. "The first thing that Japanese banks do is try to help companies when they get into trouble," says Mr Natori at IBJ. "That is our whole history."

There may also be some genuine confusion at the top of Japanese banks at the moment because of the huge tide of problems which has swept over them. Although Japanese bank representatives abroad are increasingly sophisticated, observers say that top management in Tokyo often has little experience of business overseas, and is inclined to rein in foreign branches when the going gets tough.

The Japanese banks' startled withdrawal from the Middle East market when Iraq invaded Kuwait this summer is seen as a sign of this.

Much will depend, though, on how long-lasting recent trends become. Although western bankers do not doubt that the Japanese will become more selective, the last thing they expect them to do is fade away.

Mr Tom Seaman, a director of Merrill Lynch in London and a specialist in banks, says he believes that a shake-out in the Japanese banking industry could even make it stronger. "They should remain very powerful institutions," he says. The Japanese themselves also stress their long-term intentions.

Mr Natori of IBJ comments: "Europe is very important to us in the medium and long term. Personally, I think we'll see an 'age of Europe', and there'll be plenty of room for growth."

Seven medium-sized insurance brokers to launch European network

By Richard Lapper in London

SEVEN medium-sized insurance brokers are joining forces to create a new European network.

The World-wide Insurance Group, or Wing, which will be launched today, brings together Fenchurch Insurance Brokers, an independent London-based broker, Wesselhoeft Ahlers & Schues of Germany, Assiteca of Italy, SGAP Expansion of France, Schouten Insurance International of the Netherlands, Belgibo of Belgium and Cogesa of Spain.

The brokers believe that the new links will allow them to better service the European needs of industrial and commercial clients which provide the bulk of their brokerage revenues.

The seven brokers (which like other retail brokers place insurance for industrial and commercial companies as well as individuals with insurance companies in exchange for a percentage commission) handled insurance premiums of about £300m ($592m) in 1989.

Many of their clients are now considering European expansion in the run-up to 1992. Mr Peter Bedford, chairman of Fenchurch, says: "Most of our clients have European committees and are looking at opportunities. It is vital for us to keep pace."

The move is also part of a general realignment in the European insurance industry, in the aftermath of the opening up of the European commercial risks market earlier this year.

The European Commission's Second Non-Life Directive allows European insurance companies to provide their services freely within the EC for so-called "large" risks (in which the policyholder has a balance sheet of Ecu12.4m, net turnover of Ecu24m and an average of 500 employees). It came into effect at the end of June.

Fenchurch, which until 1989 was part of the Guinness Peat Group, counts Gateway, Sea Containers and Associated British Foods among its clients. The Milan-based Assiteca places the insurance for Banco di Roma and Olivetti among others.

The Hamburg-based Wesselhoeft Ahlers is one of the leading German brokers handling the insurance for Japanese investors in Germany.

It has recently expanded into what was formerly East Germany by opening offices in Rostock and Dresden.

The Barcelona-based Cogesa has won a contract to place the insurance for the construction company building Barcelona's Olympic stadium.

Wing's members also have strengths in certain specialist markets – like credit insurance and professional indemnity risks.

Each of the partners is ranked between sixth and tenth in its respective home market, according to Mr Bedford, who believes that the relative equality could contribute to the success of the network. All the brokers are independently owned.

Mr Bedford believes that the effective domination of the much bigger Unison network by its UK and US partners contributed to that grouping's difficulties.

Unison linked Willis Faber and Johnson & Higgins with leading European and international brokers, but appears to be breaking up following Willis's decision to merge with Corroon & Black.

Willis Corroon, like other large international brokers such as Alexander & Alexander, Sedgwick and Marsh McLennan is likely to favour acquisition of foreign subsidiaries as it aims to build its international network.

Two weeks ago Willis paid just over £2m to acquire S&C Correduria de Seguros of Madrid.

Direct ownership allows brokers to react more rapidly in meeting global needs of multinational customers. Mr Bedford accepted that none of Wing's members had the resources to build its own international network through acquisition. He said, "We will be able to give our big clients' insurance programmes board level attention."

Economics Notebook

Focus moves from ERM to EMU

In the 10 days since Britain joined the exchange rate mechanism of the European Monetary System, EMU or European economic and monetary union has acquired the ERM's former power to divide the government and stir emotions.

It provided a rallying point for dissenters and faithful at the Conservative Party Conference last week.

No visitor can have left Bournemouth unimpressed by the thunderous applause given to Mr John Major, the Chancellor, last Thursday when he asserted that: "Joining the ERM does not mean that we are now on a road leading inexorably to a single currency."

His words were hardened by the prime minister the following day when she said the government had no intention of agreeing to the imposition of a single currency.

The message from the conference hall to Brussels seemed to be that the UK was heading for yet another showdown with its European partners, all of whom accept the goal of EMU even though they differ over the speed of approaching that goal.

But the pro-EMU forces in the British business community also rallied their troops last week.

The Confederation of British Industry came out in favour of EMU as a way of achieving stable exchange rates, low inflation and the completion of the European Community's internal market.

In addition, Sir Michael Butler, the Chairman of the European Committee of the British Invisible Exports Council and a director of Hambros Bank, put forward proposals for treaty amendments and statutes that would implement the government's evolutionary hard Ecu approach to EMU.

As Sir Michael helped to invent the hard Ecu alternative to the three stage Delors plan of moving to a single currency and central bank, his latest proposals need to be looked at seriously.

At their core is a suggested statute for the proposed European Monetary Fund, which would create and manage the hard Ecu. In it, Sir Michael has sought to skirt round the vexed question of making the national central banks of the Community independent of their parliaments.

In Sir Michael's plan, the EMF statute would underline the paramount aim of price stability and make the necessary provisions for achieving this goal by development of the hard Ecu. The treaty change setting up the EMF would provide that all national authorities - be they central banks, governments or parliaments - should respect the aims of the EMF and not seek to influence EMF policy contrary to its statute.

In this way, Sir Michael argues, the national central bank governors would be protected from pressures for inflationary action by national governments and parliaments and would not need to be given independence.

This Butler plan has not yet been embraced by the Bank of England and Treasury with the same enthusiasm as the original hard Ecu scheme. Bundesbank officials appear unconvinced of its merits. To win credibility, it would also need a change of heart from the prime minister to favour at least the principle of EMU.

But if nothing else, it is evidence of City fears that Britain will end up standing aside and having no say in the creation and implementation of EMU. For men like Sir Michael, the City's future as Europe's premier financial centre could be at stake.

The Conservative message to Brussels was that the UK could be heading for an EMU showdown with its EC partners

* * *

The British Treasury does its best to deny that it has a rule of thumb to determine how far movements in the exchange rate influence the tightness or otherwise of monetary policy.

But in conversation, officials still use the argument that a four percentage point rise or fall in the Bank of England's trade weighted sterling index is roughly equivalent to one percentage point on or off bank base rates.

In that case, after one week's membership of the ERM the cut in base rates to 14 per cent from 15 per cent amounts to a mild easing of policy. The exchange rate index stood at 96 late last Friday against 94.1 when ERM entry was announced the week before. Using the unofficial rule of thumb, the overall policy easing last week was equivalent to about ½ per cent off base rates.

Whether Britain's economic situation justified such action has become a matter for lively debate in the City. Some economists, notably Mr Peter Spencer of Shearson Lehman Brothers and Professor Alan Budd of Barclays Bank argue that the Chancellor was right to ease, given growing signs of recession in the UK.

For others, last Friday's announcement of 10.9 per cent inflation in September pointed to continued strong demand pressures and evidence that the Chancellor's action in simultaneously cutting rates and entering the ERM was politically motivated. However, unkind souls have suggested that some of the zealots who have criticised the interest rate cut also were predicting a much later entry into the ERM and were wrong-footed by the timing of the measures.

An interesting sidelight on what ERM membership could mean for Britain came last week from Mr Michel Develle, chief economist of Banque Paribas in Paris, during a brief visit to London. Mr Develle, a leading French business economist, suggested that Britain's present position in the ERM was roughly analogous to that of France in late 1982.

That was when the French government had already been trying for some time to curb the expansionist and inflationary trends unleashed by President Mitterand's first socialist government and before the celebrated "U-Turn" of March 1983 when France accepted German style anti-inflation policies as the price for a significant 8 per cent devaluation of the French franc against the D-Mark in the EMS.

Mr Develle pointed out that it took France four to five years before wage increases moderated sufficiently to cease being a factor adding to inflationary pressures.

Between 1982 and today, the franc was devalued against the D-mark more than once. The sharp devaluation of 1983 was followed by downward movements in 1986 and 1987. The implication of his remarks is that sterling too may have to be devalued in the ERM even if correct counter inflationary policies are in place.

Peter Norman

Kodak must pay Polaroid only $910m

By Martin Dickson in New York

SHARES in Eastman Kodak are likely to rise sharply and those of Polaroid dip today despite a US judge's ruling that Kodak must pay Polaroid $909.5m – the largest ever award in a patent-infringement case.

The award settles a legal battle stretching back to 1976 when Kodak entered the instant photography field with equipment which Polaroid said violated its patents.

The largest previous award in a US patent infringement case was the $205m Smith International was ordered to pay Baker Hughes in 1986 in an oilfield equipment case.

But despite its size, the award was far less than the $12bn Polaroid had been seeking and below the $1bn to $1.5bn that many Wall Street analysts had been expecting. The decision was therefore seen as positive for Kodak, as well as removing a large element of uncertainty hanging over the company.

Kodak was found guilty of infringing seven of Polaroid's instant photography patents in 1985, a ruling which forced the company out of the field. But a decision on compensation was left to a second trial, which began last year.

The judge ruled that actual damage to Polaroid totalled $454.2m. The rest of the award reflected interest payments to compensate for the delay in reaching judgment.

Hinting it might appeal, Polaroid said it was still reviewing the judgment and would not announce how it would apply the money until the litigation was finally settled. It had previously said it would give shareholders at least a quarter of an award between $750m and $1.2bn. Analysts expect it to use most of the funds to reduce debt.

COMPANIES AND FINANCE

Midland chief under pressure to split roles

By Barry Riley

SIR KIT McMAHON is likely to come under increasing pressure to split his combined role as chairman and chief executive of Midland Bank. This pressure from shareholders is being intensified because of the apparent failure – not yet confirmed – of Midland to consummate its planned merger with Hong Kong and Shanghai Banking Corporation within the original three-year timeframe.

Sir Kit, 63, is understood to have told a leading investment institution privately that he was sympathetic to the view that a separate chief executive appointment should be made.

Investment institutions have a general policy of encouraging companies to appoint separate chairman and chief executives unless an individual has been a proven success in the joint role.

There is a fear that when a company is in difficulty there will be too much pressure on one man. Certain leading institutions – which have seen the share price halve this year – are arguing for the appointment of a separate chief executive if Midland is now to remain independent.

However, Sir Kit's position as chairman of the bank is not thought to be at issue.

His combined responsibility at Midland is not typical of the pattern at other clearing banks, nor even of Midland itself before he moved there in 1986 from the Bank of England.

Various previous *mistakes* by Midland, including the disastrous takeover of the Crocker National Bank of California, had weakened the bank and Sir Kit was called in to restore its reputation.

But after more than three years, institutional investors are concerned about the lack of progress, and the doubts are reflected in the yield of some 12½ per cent on the shares.

In recent years Midland has been hit more severely than the other UK clearing banks by bad debt provisions and misjudgements on the course of interest rates. It is also regarded as *being less efficient* than the rest of the Big Four high street banks.

Isosceles to meet bankers for refinancing proposals

By Jacqueline Moore

ISOSCELES, the leveraged buy-out vehicle that took over the Gateway food retail chain last year, is expected to present its refinancing plan to bankers at a regular review meeting tomorrow.

The *proposals* are expected to comprise a rights issue and the conversion of some of the company's £375m of mezzanine debt into equity. Figures of £150m for the rights and £85m for the conversion have been suggested.

A spokesman said: "The likelihood is that the company will put a proposal to the banks . . . But I expect it will be some time before it can make a public announcement."

Mr David Smith, chief executive of Isosceles, said recently that the group planned to raise its equity base by between £100m and £200m – probably nearer the latter figure.

The refinancing plans follow the group's decision in March not to sell its Herman's chain of sports goods shops in the US or its Gateway stores in Scotland and the north of England, leaving it with a higher level of debt than had previously been anticipated. Mr Smith has said, however, that there is no constraint on the business, as the group is generating £250m of cash a year.

Isosceles recently announced its 13-month results, which showed a loss of £33.2m, after paying interest of £147m. The period included 40 weeks of trading from Gateway. In the first quarter of this year Isosceles made pre-tax profits of £2.8m, after interest payments of £41.5m.

Financial alchemist turns gold interests into base metal shares

Kenneth Gooding examines Hanson's inability to sell a large part of its Newmont Mining stake

WORDS LIKE "bungled" and "débâcle" are not often associated with ventures involving Hanson, the UK-based Anglo-American conglomerate, but they were being used by some analysts on Friday to describe the group's failure to sell a big part of its shareholding in Newmont Mining, the biggest US gold producer.

If, as the analysts suggested, Hanson's failure to make the issue "fly" has cast a giant shadow over *all* gold equities, the UK group has much to lose. For, as Hanson uncharacteristically reminded the market *recently, it owns more gold* in the ground than just about any company outside South Africa.

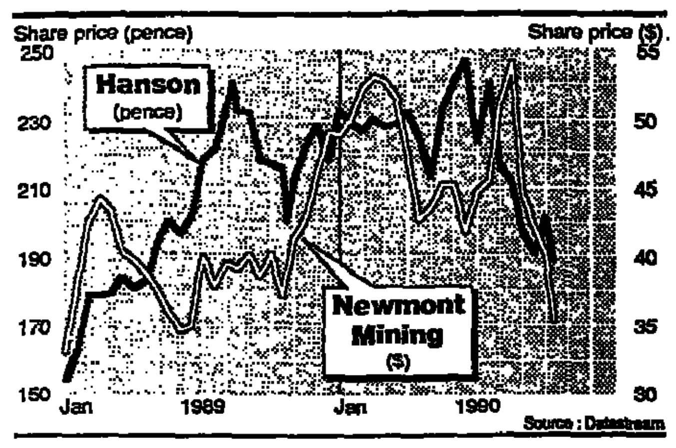
Not only does Hanson own 49 per cent of Newmont Mining, which has more than 20m troy ounces of gold in its proven and probable reserves, it also has 100 per cent of Gold Fields Mining Corporation, another US company, which has about 7.5m ounces. Both these interests were acquired when Hanson took over Consolidated Gold Fields of the UK in August 1989.

Almost exactly one year later, Hanson announced it wanted to sell 8.4m of its shares in Newmont Mining. That would cut its shareholding to about 26 per cent, release about $375m immediately and bring in another $300m at a later date.

The move gave some important signals to the market: firstly, Hanson was not interested in retaining its gold interests for the longer term but it had not been able to attract a cash buyer for all its Newmont stake from among potentially interested gold mining groups.

Secondly, even though Hanson was to give an undertaking not to sell another significant chunk of Newmont for a year, potential buyers could assume that one day the rest of the Hanson stake would be sold. Until that day the Newmont share price would be burdened by the threat of a further big sale.

Hanson launched the Newmont sale when there was a good chance that the price of gold bullion would recover



Source : Datastream

from a relatively low level in the wake of the Gulf crisis. But gold failed to break conclusively through $400 an ounce and investors lost interest again.

A Newmont sale "road show" was taken on a tour of European and North American investors. The reception *seemed to be reasonable* – except in London where some hostile questions were asked – but the Newmont share price, which reached a peak for the year of $54 as gold jumped in August, fell steadily.

This was partly because some holders were selling in anticipation of being able to buy back on the sale. As the Newmont price approached $36, where it stood at the time of the Gold Fields takeover, it was obvious that Hanson had either to suffer a paper loss on its holding or withdraw.

Hanson announced late on Thursday that the sale had been postponed indefinitely.

To be fair, Hanson was not alone. Amax, the US natural resources group, had to withdraw a potential $150m offering of units in its Amax Gold subsidiary. Mr Doug Newby, analyst with stockbroker Ord Minnett, suggested: "Both Hanson and Amax *are victims of their* own success. Both companies have become viewed as 'smart *investors' which begs the question* why anyone should buy anything from either company."

Another analyst, who asked not to be identified, said: "Hanson has boxed himself in. He has put a ceiling of $40 on the Newmont share price because everybody knows that when the price reaches that level he will sell."

Hanson did indeed make it clear it had not withdrawn *completely and it can* keep updating its filing with the US Securities and Exchange Commission on a quarterly basis so as to be ready to jump in with the Newmont sale should market conditions change.

Hanson also said it would "continue to explore other alternatives with regard to monetizing the investment in Newmont".

Analysts believe this jargon can be *translated* to mean *that* Hanson is inviting those gold companies which previously turned down the Newmont stake to think again now that the price is much lower.

One quick look at Hanson's balance sheet shows that the UK group is in no urgent need of cash. But Hanson could easily make much better use of the $1.5bn it has wrapped up in Newmont shares.

The only return is from Newmont dividends which give Hanson a yield of only about 1 per cent on this substantial investment.

From the outset analysts were dubious about the market's ability to absorb the Newmont shares all at one time. *The combined* free-floating stock of all the world's gold mining companies is worth only about $20bn. The Newmont and Amax issues would therefore have added about 5 per cent.

Ironically, the relative short supply of gold shares has sent the prices of North American gold mining groups into the stratosphere and they have typically been selling at 40 to 60 times historic earnings.

This meant that, while other gold companies would not have been slow to offer their overvalued equity in exchange for Newmont or Gold Fields Mining Corporation (GFMC) they could not justify paying cash for them. But Hanson wants cash.

Newmont is now selling at a much more reasonable 15 times earnings and some analysts *suggest* that this might prove to be Hanson's biggest blunder – that the Newmont affair might have caused some reality to come back to gold equity markets.

"This could well be a signal that these great multiples on gold shares are not realisable," pointed out Mr Rob Davies, analyst with Shearson Lehman Brothers.

Any re-adjustment of this sort would take the value of both Newmont and GFMC down well below the level at which they stood when Hanson acquired them.

Of course, Hanson's investment *would be transformed* if the price of gold bullion suddenly soared.

But analysts hold out little hope of that. The consensus is that gold will trade between $380 and $400 an ounce for some time to come and that, when it does move up, it will only be towards $420.

D-Day for Mecca preference

By Andrew Jack

THE RANK Organisation will reveal today whether it has been successful in obtaining the final convertible preference shares in Mecca, the leisure group it acquired in August.

About 15 per cent of holders of convertible cumulative preference shares in Mecca had still refused to accept Rank's terms last Friday. It offered three of its 8.25 per cent preference shares in exchange for every four of Mecca's 7.25 per cent units.

The holders complained that they would only receive dividends in Rank shares from the allotment date of September 6. By retaining their Mecca preference shares, they are entitled to deferred payment of the interim dividend which was passed following Mecca's disappointing interim results on September 25.

But Rank's board announced three weeks ago that "the current offer is final and will not be increased." Rank needs 90 per cent of the shares to be able to purchase the remainder compulsorily but has said it will not be hindered if it can*not obtain all the Mecca* shares.

Sun Life increased its stake to an *estimated 9 per cent of* the preference shares last Friday, by buying the stakes held by Olim and Martin Currie, two fund managers. Three other institutions hold the bulk of the remainder of the Mecca preference shares.

OEM makes small interim profit

OFFICE AND Electronic Machines made a pre-tax profit of £10,000 in the first half of 1990, compared with a loss of £724,000 which grew to £2.39m by the end of 1989.

The whole of the loss incurred by the now discontinued Triumph Adler distribution business was provided for in the 1989 accounts.

Mr Douglas Hawkins, chairman and chief executive, said the focus of management in the early part of the year was concentrated on unwinding the TA business. Now it had shifted to the enhancement and expansion of the retailing and service activities in office products.

Good results were achieved in the furniture and stationery sections while the service and machine sales divisions were strengthened by reorganisation, he said.

Earnings per share were 0.16p (loss 11.85p). The interim will again be 0.1p.

The chairman was confident that the small but positive half year result marked a turn in OEM's fortunes. It was backed up by a cash positive balance sheet following the sale of current assets to TA and the disposal of freehold premises in Borough High Street, SE.

LAST WEEK'S CROSS BORDER DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Nederlight (Internat'l consortium)	*Divison of Swedish Match*	*Matches & lighters*	*£142m*	Swedish Match rebalances
RMC (UK)/Three German companies	Readymix Berlin (jv)	Building materials	£53m	Switzerland's Holderbank objecting
British Steel (UK)	Aristrain (Spain)	Steel	£114m est	Deal revived
Nissan Fire & Marine Insurance (Japan)/Royal Insurance (UK)	Nissan Insurance Co Europe (UK jv)	Insurance	£13.3m	Sector trend of Japan/UK links
ILVA (Italy)/Salgotarjan Iron & Steel Works (Hungary)	Hungarian jv	Steelmaking	N/A	ILVA taking 50%
Pratt & Whitney (US)/ MTU (Germany)	Equity swap	Aero engines	N/A	Exchanging up to 20%
Hoskyns (UK) services	Technodata (Germany)	Computer services	£11.1m	Hoskyns develops...
Hoskyns (UK)	Taurus (Germany)	Computer	To £10.5m N/A	...business on continent
ADT (Bermuda-registered)	LEP Group (UK)	Security & distribution	N/A	ADT ups stake to *27.3%*, alarming LEP
London Underground (UK)/ Scottish Power (UK)/ VKR (Germany)	*UK jv*	*Electricity* generation	*Nominal* for now	*Detailed plans* being drawn up

The steady flow of new international deals continued, writes Brian Bollen. Joint ventures and other agreements to co-operate featured prominently, but not all was sweetness and light.

The resurrection of *British Steel's* purchase of a *significant* stake in steelmaker Aristrain dismayed the Spanish government. Its concern centres on a possible flood of British imports and the *threat to state-owned Ensidesa, Spain's biggest steelmaker*. The deal, *if approved* by the European Commission, could revitalise British Steel's strategy for European expansion, although doubts persist over how it will realise its international ambitions. Politics still matter as *much as economics in steel.*

RMC – the world's biggest maker of ready-mixed concrete – furthered its ambition to share in the growing east German *market* with its agreement to buy into the formerly state-owned Ruedersdorf cement group. RMC started work on modernising Ruedersdorf, despite attempts by rival bidder Holderbank of Switzerland to halt the deal.

UK security and distribution *company* Lep Group sternly *warned* ADT, the *Bermuda-registered* security and vehicle auction group, to keep at arm's length after its stake in Lep leapt to 27.3 per cent.

The joint venture between *Royal* Insurance of the UK and Nissan Fire & Marine Insurance underlines the long-term Japanese interest in both the UK and European markets.

In the highly competitive aircraft engine sector, Pratt & Whitney of the US and Germany's Motoren-und Turbinen-Union cemented their alliance with a deal to exchange up to 20 per cent of equity.

***International consortium Swedish Match changed its look and its name with the sale of almost* all its match and disposable lighter businesses to another international investor group, Nederlight. The rebalanced company – comprising the European and US operations of shaving products company Wilkinson Sword – will be called Wilkinson Sword.**

Source: FT Mergers & Acquisitions International

Rodime's £1m sale of printed circuit boards

By James Buxton

Rodime, the Scotland-based disk drive maker, *is selling the* printed circuit board assembly operations at its plant at Glenrothes, Fife, for £1.05m. The purchaser is Simclar, a manu*facturing company based* nearby at Dunfermline.

Rodime, which was the subject of a large scale financial rescue in 1989 and is still incurring losses, put its in-house printed circuit board operation up for sale in May in *order to concentrate on its* core product, hard disk drives for computer workstations and personal computers.

Under the sale agreement Rodime will transfer 81 employees along with fixed assets and inventory to Simclar, *which will supply* it with printed circuit boards for an initial 48 weeks while developing other sales outlets.

Proceeds will help Rodime reduce heavy borrowings.

COMPANY NEWS IN BRIEF

ASD: Following its tender offer Usinor Sacilor interested in 19.6 per cent of ordinary and 19.8 per cent of convertible preference capital. Under agreement, Stemcor will sell *shares to bring Usinor Sacilor* holding to 20 per cent of each class, and itself will hold 61.7 per cent of ordinary and 43.7 per cent of preference.

ATLAS CONVERTING Equipment has bought from the receiver the freehold and long leasehold property, fixed assets, stock and business of Hurley Moate Engineering for £625,000 cash. Oldham-based Hurley makes unwind and rewind machines for the printing and converting industries.

EDENCORP LEISURE has contracted to buy Great Glen Water Park for £950,000 cash and £250,000 in 6 per cent convertible loan stock, and Whitelands for £420,000 in 3m shares. *Great Glen owns* property on the Caledonian Waterway and a holiday leisure village; turnover in 1989 was £1.45m and profit £137,000, while assets were £1.41m. Whiteland owns Marvel's theme park in Scarborough; in 1989 turnover was £346,000 and *profit* £15,794.

JONES STROUD: The AGM told that interim profits were likely to be similar to last year through containment of costs; there had been no improvement in trading conditions.

COMPANIES AND FINANCE

Suez settles for a boardroom compromise

George Graham looks at the choice of new chairman at the French banking group

Since the privatisation of Compagnie Financière de Suez in October 1987, Mr Renaud de la Genière, the company's austere and punctilious chairman, has surprised the many critics of his appointment with his success at merchant banking.

However, Mr de la Genière's recent illness, accelerating a retirement initially scheduled for June next year, has thrown into cruel relief the difficulties Suez now faces.

Under this former budget director at the finance ministry and governor of the Bank of France, the cut and thrust of running Suez was carried out by three joint managing directors: Mr Gerard Worms, Mr Patrick Ponsolle and Mr Bernard Egloff.

These three musketeers, as they were dubbed, were joined by a fourth, Mr Antoine Jeancourt-Galignani, chairman of Suez's 100 per cent owned investment banking subsidiary, Banque Indosuez.

It has not been easy, however, to select one of them for promotion to the top job. And Mr Worms, a specialist in industrial policy whose career has taken him to the prime minister's office, publishers Hachette, and chemicals group Rhône-Poulenc, is seen by some observers as a compromise.

In his first statement on Friday night, however, Mr Worms said that his first duty was "to preserve the group from the risks of pressure or of being led astray from the firm and straight line of independence traced by all the chairman of this company," which appears to be a robust if somewhat desperate declaration of autonomy.

Since its privatisation in October 1987, Suez has undergone a radical transformation.

In 1988, a hard-fought stock market battle against Mr Carlo de Benedetti, the Italian financier, ended with Suez taking control of Société Générale de Belgique, the sprawling and unprofitable Belgian industrial conglomerate.

When last summer, with SGB still only partly turned round, Suez found its position as sleeping majority partner in Victoire, the French insurance company, threatened, and was forced to embark on another stock market struggle, again successful.

In both cases, Suez was able to place most of the shares it acquired, ending up with 51 per cent of both SGB and Victoire, but no debt. Never the less, it has become clear in recent weeks that the group is short of cash, at a time when earnings are falling at SGB and Victoire, and flat at Indosuez.

Renauld de la Genière: early retirement reveals problems

Worse, Suez is being pressured by its minority shareholders at SGB – where its Belgian partners appear unenthusiastic about leaving the country's biggest holding company under lasting French control – and at Victoire, where Union des Assurances de Paris (UAP), France's leading state-owned insurer, owns a 34 per cent interest and is also Suez's largest shareholder.

Mr Jean Peyrelevade, chairman of UAP and a former chairman of Suez before its privatisation, has been pressing hard for some return on the FFr14bn ($2.75bn) he invested in Victoire – all attempts at co-operation between the two groups have so far been fruitless, and Victoire managers have conducted a spirited resistance to the imposition of UAP power – and has been among the most open in his criticisms at Suez's decision-making deadlock.

It is not clear whether at the beginning Mr Peyrelevade really believed in the public statement of intent which accompanied UAP's entry into Victoire: full competition between the two groups in France, but co-operation on foreign development projects.

Between them, Victoire and UAP already had sizeable subsidiaries or allies in Germany, Denmark, the UK, Belgium, the Netherlands and Italy; this left the US as one of the few target markets for such co-operation, and there UAP's state ownership ruled it out as a partner for Victoire.

It seems more likely that Mr Peyrelevade always intended to bide his time until Suez decided, or was forced, to sell him control of Victoire. He has not concealed his view that it would be in Suez's strategic interests to sell him more Victoire shares, and the unpublished shareholders' agreement attached to the acquisition of the original 34 per cent interest – split between Victoire itself and the Compagnie Industrielle holding company which controls it – is understood to give him a stranglehold on Suez.

The question remains whether it would be politically acceptable for UAP to take control of Victoire – an operation which could prove difficult to accomplish, given the overt hostility of most of Victoire's management, especially its chairman, Mr Jean Arvis, and of its foreign subsidiaries. Colonia in Germany, for example, is far from wholly controlled.

French state-owned companies are still governed by President François Mitterrand's re-election pledge of neither privatisation nor nationalisation. This doctrine, known as "ni-ni", has been interpreted with some flexibility, but it seems unlikely to prove acceptable for the number one French insurer, which is state-controlled, to take control of the number two, which is private.

Poland uses Paris bourse as model for exchange

By George Graham in Paris

POLAND has picked the Paris stock exchange to help it create a new stock market in Warsaw.

Mr Régis Rousselle, chairman of the Paris exchange, and Mr Waldemar Kuczynski, minister for the transformation of property, are due to sign a co-operation agreement in Warsaw tomorrow which is aimed at setting up the new market next year.

French stock exchange officials said the Polish authorities had sought a regulated and transparent trading system and had picked the French market model after studying the other systems available.

Paris uses the CAC electronic trading system, which is itself a modified version of the screen-based system developed by the Toronto stock exchange.

French experts are expected to be in Warsaw by the end of the year to draw up the blueprint for Warsaw's future market. Polish officials will also come to Paris for training by French brokers, institutions and market organisations.

Soviet authorities last week signed a co-operation deal with the New York Stock Exchange with the aim of setting up a market in Moscow.

Eni expects net profits to rise by at least 11.6%

By Haig Simonian in Milan

ENI, the Italian state-owned energy and chemicals group, expects net profits to rise by at least 11.6 per cent to more than L1,800bn ($1.6bn) this year from L1,613bn in 1989.

Operating profits should jump by almost a third to some L4,300bn from L3,206bn in 1989.

In the first six months of 1990, operating profits surged by 34 per cent to L2,169bn thanks largely to earnings in Eni's energy activities, which more than compensated for difficulties in certain other parts of the business. Group turnover rose by 3 per cent to L18,869bn, from L18,329bn in the first half of 1989.

Although sales of petroleum products in Italy remained static, Eni enjoyed substantial growth in most other markets. Overall production of petrol rose by about 27 per cent to 12m tonnes, while sales of natural gas and coal increased by 8 per cent and 27 per cent respectively.

Last week Eni finalised the terms under which it is prepared to sell its 40 per cent Enimont stake to Montedison, which jointly owns the chemicals venture.

Casino blames restructuring costs for loss

By William Dawkins in Paris

CASINO, the acquisitive French supermarket and food chain, slipped into a FFr152.8m ($30m) net loss in the first half of the year, hit by restructuring costs, heavy advertising spending and a fall in gross margins due to a price cutting campaign.

The figures, a sign of the ferocious competition in the cut-throat French supermarket industry, include the first contribution from La Ruche Meridionale (LRM) the southern French chain of stores which Casino bought for FFr3bn last April, as part of its efforts to move from France's fourth to its largest supermarket group by 1993.

Group turnover rose by 21.5 per cent from FFr17.3bn to FFr21bn, including a FFr4bn contribution from LRM. A large part of the swing – from group profits of FFr114m net in the first half of 1989 – is due to FFr278m in exceptional charges for LRM, and the costs of laying off more than 20 per cent of the group's workforce.

Casino is to lose 1,600 administrative and warehouse staff, mainly from LRM's headquarters in Agen, south of Bordeaux, by the end of 1992. There will be no more restructuring costs in the current half, said the group. LRM also contributed a FFr60.4m loss to Casino group results.

The cuts form part of a thorough overhaul of Casino's strategy, designed to counter the steady erosion of profit margins that has accompanied its fast expansion over the past decade, in which the group has quintupled the number of shops it runs. Casino began cutting prices last year in a move to change its expensive image. The result was that gross margins slipped by 1 per cent in the first half, representing a FFr135m decline in operating income. On top of this, the group spent FFr193m on an advertising campaign to inform customers of its new price-cutting strategy.

Casino added that it was about to begin a wholesale renovation of its stores, and that it had opened 11 new supermarkets during the first half. Meanwhile, the group was making good progress in reducing stocks and improving the organisation of deliveries.

● Casino's results contrast sharply with Galeries Lafayette, the Paris department store, which tripled its pre-tax profits in the first half, from FFr18m to FFr55.7m. However, it warned that sales had dropped off in the current quarter, so that it was unlikely to repeat the increase of the first six months in the full year. The gain came after a FFr34m exceptional charge.

ASX plans big shake-up after A$23.7m deficit

By Kevin Brown in Sydney

THE Australian Stock Exchange (ASX) has been forced into a "rigourous" cost-cutting programme after recording a loss of A$23.7m (US$19.4m) for 1989-90, compared with a profit of A$9.5m in the previous year.

The ASX said it expected further losses in the current year because of the depressed state of the share market. On Friday, the All Ordinaries Index was 25 per cent below its 1989-90 high, and 42 per cent short of the all-time high in September 1987.

Mr Laurence Cox, ASX chairman, said the financial sector was struggling under the pressures of high interest rates, inflation and "revelations of questionable business practices by several of Australia's failed entrepreneurs."

The report shows that 168 stocks were removed from the ASX list last year, many for failure to pay annual listing fees.

CBR buys Cadman plants

By Tim Dickson in Brussels

CBR, the leading Benelux cement maker, is adding to its North American activities by buying the Cadman companies, a leading aggregates and ready-mix concrete producer based in Washington.

The announcement of the deal, for an undisclosed price, comes only a few weeks after CBR completed the purchase of Standard Concrete Products in southern California. SCP, based at Santa Anna and boasting annual sales of $75m, has eight ready-mix plants and one aggregate plant serving the area.

Cadman, with turnover of some $65m, has seven aggregate plants and five ready-mix plants around Seattle.

Bally faces reorganisation

By Barbara Durr in Chicago

BALLY Manufacturing Corporation, the world's largest gambling and casino company, faces a possible restructuring following months of troubles.

It's chairman, Mr Robert Mullane, has resigned and handed over the reins of the company to its largest shareholder, Mr Arthur Goldberg.

The company also announced that its Nevada subsidiary would not make a scheduled interest payment of $18.4m on mortgage notes. Moody's said it was downgrading Bally's $1.6bn debt.

Bally's shares ended last week at $3 on the New York Stock Exchange, compared with a 52-week high of $24.37.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Investors face uncertain few months

FOR INVESTORS in gilt-edged securities – UK government bonds – the coming months are going to be bumpy.

Britain's entry a little over a week ago into the European exchange rate mechanism caused an initial rush of trading in gilts. However it did not take long for ERM mania to die down and, towards the end of last week, trading was distinctly muted.

"The gilt market is coming to terms with ERM. Everyone now is saying: 'What's new?'," said Mr John Shepperd, an economist at Warburg Securities.

One talking point, however, was the initiation on Thursday of formal discussions between the Bank of England and the gilt-edged market-makers over the possible introduction of UK government securities denominated in the Ecu.

The government has already been issuing short-term Ecu-denominated Treasury bills for the past two years, and the extension of this strategy into bonds would further diversify the funding opportunities of the authorities once new issues of gilts are resumed.

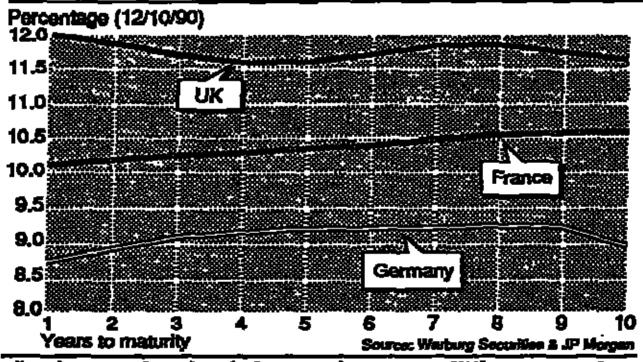
It is easy to envisage circumstances in which foreigners might become nervous of the UK's ability to sustain a central exchange rate of DM2.95 within the ERM. Ecu bonds could then be sold without putting undue upward pressure on sterling bond yields.

At the same time, the government could argue that by issuing Ecu paper it was underlining its intention to maintain the sterling parity, because a downward realignment of sterling within the EMS would trigger foreign exchange losses on this type of borrowing.

As for conventional gilt-edged securities last week, yields were cut back, but by much more for short-duration securities compared with longer gilts. That reflected the 1 per cent reduction in base rates which took effect a week ago today and which – logically enough – led to yields falling for short gilts by a comparable amount.

Accordingly, prices for most gilts rose. The Treasury benchmark 9 per cent gilt maturing in 2008 closed on Friday at 86.44, up from 84.66 a week earlier. The yield went down from 12.09 per cent to 11.72 per cent.

Gilt yields



Source: Warburg Securities & JP Morgan

In the months ahead, however, the omens for gilts do not look particularly good. The first reason is to do with the hard realities – as opposed to the rhetoric – of ERM entry.

From now on sterling will be linked to the other main European currencies by the fact of its moving up or down within its 6 per cent currency band. That is expected to lead to extra interest among international investors in switching in and out between gilts and other European government bonds – chiefly German bunds and French OATS securities.

To an increasing extent, investors will regard gilts more in fundamental terms and less as a special market distinct from the others. On this basis, they may well discover that gilts do not look a particularly good bet compared with instruments like OATS and bunds.

Such an analysis is linked to the different yield curves for the three types of bonds – and the differing inflation rates for the three countries. Measured on the basis of year-on-year increases in producer prices, the UK rate is 6.3 per cent. France has inflation of 1.4 per cent and for Germany the figure is 1.6 per cent.

The yield for a UK gilt on a five-year basis is about 11.6 per cent, as the chart shows. Comparable yields for OATS and bunds are lower – at 10.3 per cent and 9.3 per cent.

Looking at the bonds in terms of real yields – nominal yield less inflation – turns the picture upside down. The real yields for UK, French and German bonds are respectively 5.3 per cent, 8.9 per cent and 7.7 per cent. In other words, the position of UK bonds in the hierarchy goes from top to bottom.

From this point of view, there seems little reason to buy gilts compared to the other government bonds. As Mr Peter Crawford, an analyst at J.P.Morgan points out: "The fundamentals argue against gilts looking attractive."

As though to press home the point about worries related to UK inflation trends, last Friday's retail price index announcement made depressing news for the gilt market. In September, retail prices increased markedly on August, with the annual rate of increase going up from 10.6 per cent to 10.9 per cent. This means that UK inflation is likely to remain well above average European rates for some time to come.

Britain's retail price inflation looks likely to peak in October at 11 per cent or higher, with the numbers coming down after that. However, further oil price increases arising from the Gulf crisis could still deal a blow to the government's anti-inflation policy.

A final reason for worries about the future for the gilt market is the increasing firm view of many economists that the announcement of ERM entry was motivated mainly by political factors related to interest rates and the next election. "Mrs Thatcher might loathe the ERM, but she loathes losing elections even more," said Mr Steven Bell, an economist at Morgan Grenfell.

Mr John Lipsky of Salomon Brothers spells this out further. "By joining the ERM and cutting base rates before there has been any significant convergence of inflation [with other European countries] or inflationary expectations, the government has created doubts about its anti-inflationary resolve," he says.

The general thoughts about UK inflation trends as against the position for French or German bonds do not take into account some special factors. For example – for reasons linked to lack of supply – certain long gilts look a better bet than the analysis related to inflation trends would appear to bear out. Also some elements linked to the French or German bonds may well diminish their appeal to investors in the next year or so. Thus demand for bunds may slacken off markedly once the implications of German unification – with the high borrowing costs and increasing inflation rate that this may involve – begin to sink in.

Despite such caveats, it seems that in the months ahead gilts – particularly the long-dated ones where buying involves a great deal of uncertainty about how future economic trends will pan out – may lose some of their shine.

● The Association of International Bond Dealers has announced that it will extend its rules to the medium-term note market. The AIBD is the self-regulatory organisation for the Eurobond market in the UK. The AIBD says it has based its decision on the growth in importance of medium-term notes in the international capital markets.

Peter Marsh

NRI TOKYO BOND INDEX

December 1983 = 100	11/10/90	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	143.10	8.19	141.86	145.86	142.57
Government Bonds	139.72	8.13	138.61	143.36	140.09
Municipal Bonds	144.91	8.18	143.59	148.14	143.63
Govt.-guaranteed Bonds	147.82	8.23	146.28	150.61	146.05
Bank Debentures	142.15	8.18	140.85	143.04	140.09
Corporate Bonds	145.71	8.39	144.43	149.04	145.58
Yen-denom. Foreign Bonds	149.98	8.76	149.75	155.02	151.84
Government 10-year†	7.56		7.65	6.83	6.89

† Estimated par yield

Source: Nomura Research Institute

US MONEY AND CREDIT

Short-term thinking rules supreme

THE AMERICANS are not especially big on historical perspective. And in the increasingly gloomy world of American business and finance, the short-term tends to rule supreme, from quarter to quarter.

Lately the US bond market – thanks to the impact of Saddam Hussein on the oil market and George Bush on the US budget process – has given a new meaning to short-term. Historical perspective in the US credit markets is now an hourly affair, which is a parlous situation for investors, but perhaps inevitable given the utter chaos of current US events.

If economic historians were to look back at the autumn of 1990 from the future, what would they see? On the macro-economic front they would see the top executives of America's biggest corporations wringing their hands with something approaching despair.

The historians would see that the September denial of a recession by Mr Alan Greenspan, Fed chairman, was discredited within days of his statement. Mr Greenspan was the last US official to cling to the textbook notion that a recession must be defined as two consecutive quarters of GNP decline. But Mr Jack Welch of General Electric, echoing the views of businessmen, last week said: "I don't know the definition – if it's two quarters or whatever you want to have it – but it feels like one."

Mr Greenspan's fear of an inflationary spike, clearly justified by last week's latest oil-driven statistics, such as a 1.6 per cent September increase in wholesale prices, may none the less be exaggerated as the US economy slumps deeper and deeper into a recessionary morass. The US business community is desperate for a cut in interest rates – what else can it hope for as consumer spending falls away and the cost of inventories mounts?

Mr Jim Robinson, chairman of American Express, last week called for a looser monetary policy by the Fed. "The Fed, we believe, will in fact be able to and should bring down the cost of money," he said at a meeting of the Business Council. "Inflation is not the number one problem out there."

In the banking industry, a credit crunch is under way in the crisis-ridden real estate market, at least in most parts of the country except for the West Coast. Chemical Bank last week reported losses and slashed its third-quarter dividend by 63 per cent to build capital. Mr Walter Shipley, chairman of Chemical, said "we are heading for a rocky period." Coming between the recently revealed disastrous state of Chase Manhattan and tomorrow's important Citicorp results, the Chemical reaction was seen as a sign of the times.

This is the backdrop to the current state of market uncertainty, which saw the Dow Jones average go to hell for three days before recovering on Friday. The benchmark 30-year Treasury bond meanwhile closed the week some 1¾ points lower and yielding 8.96 per cent, or close to its level of a month ago. The drop would have been worse had it not been for a rebound on Friday.

The credit markets are likely to continue to drift nervously, thanks to Messrs Bush and Hussein. The oil spike should be taken as a short-term factor, at least until it is clear that there will be, as seems likely, a shooting war sometime after the November US mid-term elections.

Meanwhile, in Washington, Mr Bush last week contradicted himself so often on taxes and budget elements that he began to look more like a court jester than a president. The US budget fiasco does not make for sound investment decision making.

Analysts at Donaldson, Lufkin & Jenrette say they continue to be constructive regarding the longer-term outlook for fixed income securities. DLJ is predicting that the yield on 30-year Treasury bonds will drop to 7.25 per cent by the middle of 1991, while near-term performance will be contingent upon developments in the Middle East and Washington progress – or lack thereof – towards passage of a deficit reduction plan.

S. G. Warburg reckons on a hard landing for the bond market "as America's financial crisis deepens" and forecasts the long yield rising to 9.5 per cent in the near term. DLJ and Warburgs are not necessarily apart: even DLJ admits that "it is quite possible that yields will rise significantly between now and the Treasury's conduct of its November refunding operation."

What prognostications can one make for interest rates, then, except to say that they are likely to fall eventually as the US recession worsens?

Looking back to the autumn of 1990, the historians of tomorrow, like analysts today, will likely be able to come to only one broad conclusion: the US economy was patently adrift.

Alan Friedman

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds lunch-time	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month prime CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
90-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Money supply: In the week ended October 1 M1 rose by [illegible] to [illegible]

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]					

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant: ex yld = exercise yield at current warrant price.
Closing prices on October 12

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL LOANS

High costs for big power companies

NATIONAL Power and PowerGen, the UK's two electricity generating companies which must secure funding from international banks before they are privatised, will have to pay a significantly higher cost for their bank credits than the regional electricity companies which preceded them to the market.

They will need to raise £2.5bn between them and are expected to approach the market before the middle of next month. But they come to an uncertain loans market – at least two credits had to be repriced this week in a bid to ensure success in syndication, and many others face difficulties – which has been saturated with electricity exposure in the past two months.

With financing for the 12 regional electricity companies now in place – the last of the deals for Southern Electricity will be signed today – the market is concentrating on pricing terms for the generators. These are expected to have to offer a handsome premium to entice international banks to increase already-sizeable electricity holdings.

The regional companies paid interest margins no higher than 20 basis points and commitment fees no more than 8 basis points.

With an exposure of close to £5bn in various electricity facilities, which offered small recompense to the banks involved and often saw underwriting banks holding more than they had bargained for, credit committees are watching the generators warily.

The rise in pricing is made evident by the number of deals being re-priced or restructured in attempts to ensure success in syndication. Barclays and Granada Group are talking about increasing the pricing of the £250m revolving credit which initially carried a 7½ point commitment fee and a 20 basis point margin. The loan was launched only a month ago.

Similarly, a deal for American Airlines, being arranged by Crédit Suisse First Boston, has dropped from view. The company is in talks with the lead manager about changing the pricing, or otherwise restructuring. The $750m deal, also launched in September, carried a fee of 10 basis points and a margin of 12½ points.

British Land is also having difficulties with its £200m deal, announced a month ago by NatWest, and carrying a 35 basis point margin. In addition, its £50m deal for Wace Group appears to have disappeared from the market.

However, amid all this gloom in the market, deals are still arriving at the finer end of the pricing scale. These include the the £700m revolving multi-option facility brought by Citicorp and JP Morgan on Friday.

The deal is for the UK subsidiaries of France's state-owned Elf Aquitaine Group – Elf UK and Elf Oil and Gas – and the funds will be used for the development of their upstream facilities over the next four years.

With a facility fee of 10 basis points and a margin of 15 points for the first five years rising to 20 points for the following five years, the pricing is considered aggressive in today's market. But Elf is a quality borrower, and is stressing the business that may be generated out of a relationship built now. A large amount of the financing will be drawn down. In addition, Barclays has been intriguing the market with a hint of a deal it will announce today, expected to be a $700m facility for an offshore borrower.

Pacific Dunlop mandated JP Morgan to arrange a $150m five-year revolving credit facility, while Deutsche Bank and Postipankki were given the mandate for a $100m facility with a 27½ basis points margin.

Deborah Hargreaves

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	533.6	0.0	478.0	13,564.5
Prev	2,799.4	0.0	530.0	13,757.3
Other	1,713.7	0.0	907.8	8,242.4
Prev	1,545.1	8.1	0.0	4,640.1
Secondary Market				
US$	14,158.3	821.1	5,409.4	7,656.8
Prev	20,047.3	964.9	9,408.3	9,887.1
Other	20,731.7	1,208.1	5,522.5	31,672.9
Prev	25,270.3	1,726.3	4,580.8	32,569.5

	Cedel	Euroclear	Total
US$	16,069.0	26,552.7	42,621.7
Prev	19,195.8	38,198.5	57,394.3
Other	27,404.6	42,594.5	69,999.1
Prev	25,844.5	44,495.7	70,340.2

Week to October 11, 1990 Source: AIBD

INTERNATIONAL BONDS

Arbitrage opportunities dry up as retail demand falls

THE OUTLOOK for new international bond issues remains depressing. Added to the fact that the Gulf crisis has driven many investors out of bonds and into cash, arbitrage opportunities for borrowers in the swaps market are few and far between.

In part, the erosion of currency and interest rate swap opportunities is part of a long-term trend. As the market increases in efficiency and transparency, swap opportunities are arbitraged away. In the early days, the swaps market was not watched closely by investors and arbitrage opportunities were open for prolonged periods. Now investors are aware of intimate correlation between the swaps market and primary Eurobond issuance, the best arbitrage opportunities may last just a few hours.

However, for prospective Eurobond issuers the current swaps position is worse than before. In particular, the Gulf crisis has driven retail investors from the primary Eurobond market. Less sophisticated retail investors tend not to price relative to the swaps market, but look at yields in absolute terms. A retail-driven market, therefore, generally offers better arbitrage opportunities than an institutional market.

Even under current conditions, the best swap opportunities are available in the more retail-oriented markets, such as Australian dollars and Swiss francs. But the retail demand in most markets has fallen away dramatically in the past six weeks, and arbitrage opportunities have decreased.

The dearth of willing counterparties of acceptable credit quality is also behind the exceptionally thin market. Swaps dealers suggest some of the largest counterparties, including big US and Japanese banks, have pulled back from the market as the scale of their internal problems has escalated.

The pulling back of leading banks has been particularly damaging. The big US commercial banks run multi-currency swaps books, through which borrowers can convert just about any currency into any other – but without paying the spread on a number of different transactions. Without the participation of these players, complex swaps are significantly more expensive to arrange. In addition, the Hammersmith and Fulham council case in the UK has robbed the sterling market of a number of active counterparties for interest rate swaps.

Other more willing counterparties face their own balance sheet problems, and are no longer considered to be an acceptable risk.

The number of swap counterparties in the market also depends on macro-economic expectations. In the sterling market there is an expectation, especially after the pound's entry into the European exchange rate mechanism, that interest rates will fall. Under such circumstances, few institutions are willing to swap their floating-rate assets for fixed rate. By the same token, in currencies where there is an expectation of rising interest rates – in Japan or Germany for example – more counterparties should be available. However, so far the theory is only partly correct in practice.

Borrowers are reacting to the swaps drought by quietly changing funding targets. One large triple-A rated institutional borrower admitted that its sterling fixed rate funding target of 60 basis points below Libor last year had moved out to 40 basis points below Libor now, which is itself optimistic in the current climate.

In the sterling sector, others are abandoning fixed-rate borrowings altogether and looking again at floating-rate finance. UK building societies, for example, were last year able to swap fixed-rate sterling into floating-rate funds at a cost substantially below the London interbank offered rate. Today, the bigger building societies can expect to pay up to 6 basis points over Libor by borrowing fixed and swapping into floating-rate funds.

This is still cheaper than floating-rate sterling borrowings, which have cost between 9½ basis points to 15 basis points over Libor on recent issues. But the differential has narrowed substantially in the last two months, and building societies will have to build future borrowing programmes around floating-rate notes.

Another response from borrowers has been to investigate "structured" financing alternatives, often investor-driven bonds placed with overseas institutions. Last week the Nationwide Anglia Building Society announced details of a five-year placement, structured as a fixed-rate bond for the first two years before reverting to a reverse floating rate. By matching the structure to a particular investor's requirement, the borrower was able to achieve sterling floating-rate funds at around 3 basis points over Libor.

However, smaller structured deals are not a realistic alternative to bigger bond issues. These will continue to be made mainly in straight US dollars, swapped into other currencies as required.

There will always be a trade between corporate borrowers with access to fixed-rate markets and financial institutions with a surplus floating-rate assets. But the fantastic swap-driven funding opportunities of a few years ago are probably gone forever.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Euro Cr.Card Tst.1990-2(h)♦	845	1995	5	9½	99.60	UBS Phillips & Drew	9.604
Toyota Motor Fin.NV♦	230	1994	4	9	101.42	Nomura Int.	8.564
Citizen Watch Co.Φ	200	1994	4	(5⅛)	100	Nikko Secs.(Europe)	-
Bando Chemical Int.Φ	100	1994	4	(5⅛)	100	Nomura Int.	-
Mizuno CorpΦ	100	1994	4	(5⅛)	100	Nomura Int.	-
I'finance Cr.Nat.(i)♦	38	1996	5.417	(i)	101.20	LTCB Int.	-
Shinko ElectricΦ♦	110	1994	4	5	100	Nomura Int.	5.000
Naturen Co.Φ♦	50	1994	4	5½	100	Daiwa Europe	5.500
Euro.Coal & Steel Comm.♦	153	1998	8	9½	101⅞	Mitsubishi Fin.Int	9.159
All Nippon Airways(a)♦	100	2000	10	9¾	102	Daiwa Europe	9.432
Fujitec Co.(a)Φ	100	1994	4	(5⅛)	100	Nomura Int.	-
AUSTRALIAN DOLLARS							
NSW Tresury Corp.♦	1bn	2020	30	zero	2.75	Hambros Bk	12.725
Govt.Ins.Office NSW♦	50	1993	3	14⅛	101.95	Westpac	13.295
STERLING							
N'wide Anglia B.Soc.(b)†♦	50	1995	5	(b)	100	Citicorp Inv.Bk	-
D-MARKS							
UnitikaΦ	75	1994	4	(5¼)	100	Daiwa Europe GmbH	-
Mizuno CorpΦ	70	1994	4	(5¼)	100	Nikko Secs.(Deutschl'd)	-
Sodick Co.(a)Φ	100	1994	4	5¼	100	Nomura Bk GmbH	5.250
SWISS FRANCS							
Furusato Ind.(d)★★§	70	1995	-	5½	100	Bank Leu	5.491
NJK Corp(e)★★§	50	1995	-	5½	100	Handelsbank Natwest	5.491
Minato Electronics(f)★★§♦	40	1995	-	5¾	100	Yamaichi Bk (Switz)	5.740
Hakone Tozan R'way★★♦	10	1997	-	8	100⅝	Dai-Ichi Kangyo Bk	7.880
Footwork Int.(a)★★Φ♦	100	1995	-	5⅞	100	Bca.D'Svizzera Italiana	5.875
World Bank★★♦	100	1995	-	7½	101⅞	Swiss Volksbank	7.042
Osaka Titanium Co.(o)★★§	140	1995	-	6	100	UBS	6.000
Chugai Ro Co.(p)★★Φ	100	1994	-	5¾	100	Yamaichi Bk (Switz)	5.750
KFW Int.Fin.Inc★★♦	100	1995	-	7½	101⅜	Deutsche Bk (Suisse)	7.163
Izumi Ind.(q)★★§	45	1995	-	6	100	Nomura Bk (Switz)	6.087
Fuji Electrochemical★★♦	40	1995	-	8	100	Credit Suisse	8.000
FRENCH FRANCS							
Compagnie Bancaire(c)†♦	800	1997	7	(c)	99¾	Societe Generale	-
ECUs							
Credit Lyonnais(a)♦	150	1993	3	10½	101.35	Credit Lyonnais	9.958
AUSTRIAN SCHILLINGS							
Eurofima(g)♦	1bn	2000	10	8¾	100¾	Creditanstalt-Bkverein	8.635
LIRE							
Ente Ferrovie D'Stato(j)†♦	500bn	2000	10	(j)	101	Bca Nazionale D'Lavoro	-
Ente Ferrovie D'Stato♦	300bn	1995	5	12	101⅜	Banco Di Napoli	11.622
YEN							
Toyota Motor Cr.Corp(a)♦	20bn	1993	2¾	8½	101⅛	Daiwa Europe	7.904
Tokyu Land Corp(m)♦	20bn	1995	4⅓	8½	101⅜	Nomura Int.	8.277
Bk of Montreal(n)♦	7bn	1992	1⅓	(n)	101	Bankers Tst.Int.	-
Deutsche Bk Fin.NV(k)♦	5bn	1994	4	(k)	101⅝	Daiwa Europe	-
Sony Euro-Fin.BV(l)♦	3bn	1994	4	(l)	101⅝	CSFB	-
CIBC(a)♦	2bn	1991	1	15¼	101⅛	New Japan Secs.	13.968
CIBC(a)♦	1bn	1991	1	15	101⅛	New Japan Secs.	13.721
LUXEMBOURG FRANCS							
Bennetton Fin.NV★★♦	500	1993	3	10¼	101.98	BGL	9.461
Eurofima♦	1.5bn	1995	5	9⅞	101⅝	BCEE	9.452
Credito Romagnolo★★♦	300	1993	3.083	10¼	102	Crogen Int.	9.726
Banque CSIA★★♦	500	1993	3	10⅛	101⅞	KBL	9.379
Rabobank★★♦	300	1996	5.417	10	101⅝	BGL	9.574
LB Schleswig-Holstein★★♦	300	1996	5⅓	10⅛	101.85	Banque Paribas (Lux.)	9.639
Prim.Ind.Bk of Aust.★★♦	300	1995	5	10⅛	102	Banque Paribas (Lux.)	9.603
Saab-Skania Fin.Int.SA★★♦	600	1994	4	10⅛	101.80	BIL	9.563

★★Private placement. §Convertible. ΦWith equity warrants. †Floating rate note. ♦Variable rate notes. ♦Final terms. a) Early redemption 25/10/91 102% decreasing by ¼% semi-annually. Exercise premium fixed at 2.54%. b) Fixed FRN issue. Coupon pays 14% (semi-annually) for first 2 years, then 22¾% minus 6-month Libor (semi-annually) thereafter. c) Put option every 3-month coupon date from 17/12/92 at 99½%, rising .025 each coupon date. Coupon pays 3-month Pibor. Non-callable. d) Put option 31/3/93 106⅞% to yield 8.85%. e) Put option 31/3/93 109% to yield 8.976%. f) Put option 31/3/93 110% to yield 8.824%. g) Callable 1997 at 100⅜%, then 1998 at 100¼%, then 1999 at 100⅛% thereafter. h) Asset backed issue. Credit enhancement provided by UBS Letter of Credit. Fixed re-offer price. i) Step-down deal. Coupon pays 34.6% until March '91, then 5.93%, until March '92, then 5.85% until March '93, then 5.8% until March '96. Non-callable. j) Coupon pays 6-month Libid. Callable from November 1992 at par. k) Step-down issue. Coupon pays 10% for first year then 8.4% for year 2, then 6% thereafter. Non-callable. l) Coupon pays Libor plus 25bp for first 3 months, then fixed at 10½% thereafter. Callable on 19 October 1993. m) Coupon payable semi-annually. Non-callable. n) Coupon pays 3-month Libor plus ⅛% for first 3 months, then fixed at 11% thereafter. Redemption is linked to Nagoya option-25 index. o) Put option 31/3/93 108⅛% to yield 8.074%. p) Early redemption 1/5/92 101¼% and 1/11/93 101½%. q) Put option 31/3/93 108½% to yield 9.239%. Coupon payable semi-annually. Note: Yields are calculated on AIBD basis.

THE WEEK AHEAD

ECONOMICS

Clarifying the ERM breakthrough

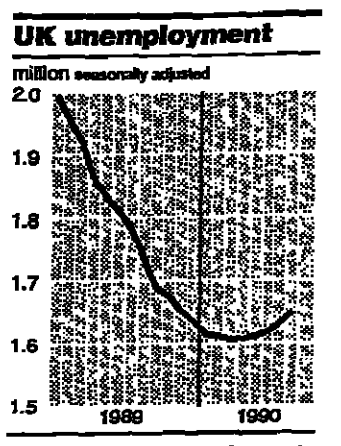
THIS WEEK, a quantity of information about the strength of the UK economy is bound to be interpreted in the light of the Government's decision to cut interest rates by 1 percentage point and join the European exchange rate mechanism.

The wider debate about progress towards European economic and monetary union is to continue with important speeches on the subject due in both Germany and the UK.

In the US, the currency and bond markets will be awaiting the latest developments in the US budget-making process.

In London, the Mansion House speech – the venue for the UK chancellor to discuss monetary policy – is also likely to be used to clarify some murky areas of funding policy. The UK authorities are unlikely to open an inquest on *last week's ERM decision and* slight easing of monetary policy.

Today, the CBI/FT survey of the distributive trades shows some pick-up in the wholesaling sector, and analysts are also expecting the accompanying retail sales data to reverse



the recent low trend on the grounds that low high street spending has been more to do with the long hot summer than a collapse in consumer demand.

Individual retailers have attributed to cool September weather a sharp rebound in retail sales – a development that could cast doubt on the wisdom of cutting base rates to 14 per cent last week.

However, the figures for industrial production tomorrow should confirm that maintenance work in the North Sea has compressed energy output. Adult unemployment, released on Thursday, has been accelerating as the slowdown in economic activity gathers pace.

The money supply data on the same day should confirm that monetary growth is now firmly settled inside its 1-5 per cent target band.

In Germany, Mr Karl Otto Pöhl, the Bundesbank president, is due today to address industrialists in Frankfurt, and on Wednesday, he speaks on D-Mark policy in Munich.

Other events and statistics, with market forecasts by MMS International, the financial research company, include:

Today: UK, CBI/FT survey of distributive trades for September, retail sales for September (0.5 per cent), House of Commons reconvenes. US, business inventories for August (0.3 per cent), Australia, August retail trade.

Tomorrow: UK,index of industrial production (flat) and manufacturing output (down 0.3 per cent) for August, public sector borrowing requirement for September (£1.6bn). Japan, wholesale price index for September (1 per cent) machinery orders for August.

Wednesday: US, housing starts, industrial production, capacity utilisation for September, two-year note auction.

Thursday: UK, unemployment (25,000) and average earnings index (10 per cent) for August, manufacturers' unit labour costs (8 per cent), money supply data for September (M0 down 0.3 per cent, M4 lending £6bn), institutional investment for first quarter, Mansion House speeches by Mr John Major, the UK Chancellor and Mr Robin Leigh Pemberton, Governor of the Bank of England. US, consumer price index for September (0.8 per cent), merchandise trade deficit for August (minus $9bn) 1-year bill auction, money supply data. Germany, regular Bundesbank meeting. France, MATIF launches Ecu bond contract.

Friday: Canada, consumer prices index for September. Japan, personal income and expenditure.

Rachel Johnson

UK COMPANIES

SOME BETTER news from the consumer sector is due this week with the results of two leading companies.

Albert Fisher, the acquisitive fresh produce distributor and processed food supplier, should maintain its solid growth when it reports full-year results on Thursday.

Analysts are expecting pre-tax profits of about £73.5m, in line with the company's goal of organic growth of about 20 per cent a year.

Given the company's taste for takeovers, it is on everyone's list of potential buyers if Polly Peck's Del Monte fruit business is put up for sale.

Highland Distillers, maker of The Famous Grouse and Highland Park Scotch whiskies, is expected to report today strong growth in its final profits.

After good interim figures, reflecting UK market share gains and export growth by The Famous Grouse brand, analysts are confidently forecasting a 23 per cent rise in pre-tax profits to £24m, and a 22 per cent increase in earnings per share to 12.6p for the full year.

In contrast, though, Next, the one-time stock market darling and retail fashion high flyer now suffering from the collapse of consumer spending, is expected to return tomorrow a pre-tax profit for the first half of the year of only £5m to £10m against £15.8m a year earlier.

The market will be hoping for news that Next is nearer to withdrawing from the property market or that it has successfully disposed of its Club 24 credit card operation.

UK COMPANIES

TODAY
COMPANY MEETINGS:
Dunton, 25 Copthall Avenue, E.C., 12.00
BOARD MEETINGS
Finals:
Castle Communications
Sanderson, Murray & Elder
Synapse Computer Servs.
Tay Homes
Interims:
Edinburgh Inv. Trust
Farnell Electronics
Lilley
Quadrant
Roskel
Warnford Invs.

TOMORROW
COMPANY MEETINGS:
Control Securities, The White Hall Hotel, 2-3 Montague Street, W.C., 12.00
Magnetic Materials, Hatfield Lodge Hotel, Comet Way, Hatfield, Herts., 10.30
Molyneux Estates, Durrant House, 8-13 Chiswell Street, E.C., 10.00
Pifco Hldgs., Stanneylands Hotel, Stanneylands Road, Wilmslow, Cheshire, 9.30
BOARD MEETINGS
Finals:
Attwoods
River & Mercantile Extra Income Trust
St. Ives
Interims:
Anglo Pacific Res.
Atlas Convtg. Equipment
Baris
Elswick
Midland & Scottish Res.
Next
Tudor

WEDNESDAY
OCTOBER 17
COMPANY MEETINGS:
Abingworth, The Cavendish Hotel, Jermyn Street, S.W., 3.00
Alumasc, The Farmers' and Fletchers' Livery Hall, Cloth Street, E.C., 10.30
Armitage Bros., Armitage House, Colwick, Nottingham, 11.00
Automagic Hldgs., A. M. House, Coldharbour Lane, Harpenden, Herts., 10.00
Benchmark, The General Council of British Shipping, 30-32 St. Mary Axe, E.C., 5.30
Howard Hldgs., Kingston Lodge Hotel, Kingston Hill, Kingston upon Thames, Surrey, 10.30
Jos Hldgs., 20 Fenchurch Street, E.C., 12.30
Macro 4, The City Cellars, The Brewery, Chiswell Street, E.C., 12.00
Smith (W. H.), Millbank Tower, S.W., 11.30
BOARD MEETINGS
Finals:
Air London Intl.
Cooper (Frederick)
Exmoor Dual Inv. Trust
Norex
Pict Petroleum
Interims:
Boot (Henry)
Bourne End Props.
English National Inv.
House of Lerose
Ocean Wilsons
Tip Europe
Turriff
Waterford Wedgwood

THURSDAY
OCTOBER 18
COMPANY MEETINGS:
Elbief, Prince of Wales Lane, Birmingham, 12.00
Saville Gordon (J.), 2 Stirling Road, Edgbaston, Birmingham 11.00
Sunset & Vine, 30 Sackville Street, W., 11.00
SWP, Beeson Gregory Ltd., The Registry, Royal Mint Court, E.C., 11.00
BOARD MEETINGS
Finals:
Cradley
Fisher (Albert)
Interims:
Acorn Computer
Amer
Chesterfield Props.
Forward Technology
French Connection
Gerrard & National
Govett Oriental Inv. Trust
Linton Park

FRIDAY
OCTOBER 19
COMPANY MEETINGS:
Black (Peter), The Brewery, Chiswell Street, E.C., 12.30
Second Alliance Trust, Meadow House, 64 Reform Street, Dundee, 12.30
Sheldon Jones, Bristol Road, Bridgwater, Somerset, 10.00
BOARD MEETINGS
Interims:
Clydesdale Inv. Trust
Whinney Mackay-Lewis
Finals:
Walker (J O)

Company meetings are annual general meetings unless otherwise stated.

PARLIAMENTARY DIARY

TODAY

Commons: Debate on "Financial Services and the Single European Market." Opposed private business *from 7 p.m.*

Lords: Environmental Protection Bill, report.
Avon Light Rail Transit (Bristol City Centre) Bill, second reading.

TOMORROW

Commons: Law Reform (Miscellaneous Provisions) (Scotland) Bill, progress on remaining stages.
Health Authority Regulations.

Lords: *Broadcasting Bill*, report.

WEDNESDAY

Commons: Law Reform (Miscellaneous Provisions) (Scotland) Bill, completion *of remaining stages.*
Caldey Island Bill, remaining stages.
Opposed private business.

Lords: Environmental Protection Bill, report.

Select committees: Energy: subject, energy efficiency. Witness: Mr Richard Greenwood, *principal* administrator, European Commission. (Room 8, 11 a.m.)

Employment: subject, recruitment practices. Witness: Ford Motor Co. (Room 15, 4.15 p.m.)

Social services: subject, Opthalmic services. Witnesses: Department of Health officials. (Room 6, 4.15 p.m.)

THURSDAY:

Commons: Debate on reports from the Public Accounts Committee.

Lords: Human fertilisation and Embrylogy Bill, consideration of Commons amendments.

FRIDAY

Commons: Debate on subject to be announced.

DIVIDEND & INTEREST PAYMENTS

TODAY
Abbey National 3.15p
Alexander & Alexander Servs. 11% Cnv. Sub. Debs. 2007 5.5pc.
American Brands 12½% *Uns. Ln. 2009 6.25pc.*
BCE 83cts.
British Assets Tst. 4½% *Prf. 1.575p*
Do. A 5% Prf. 1.75p
Chrysler Corp. 30cts.
City Centre Restaurants 0.45p
Cook (D. C.) 1p
Eldridge, Pope 6¼% Irrd. Uns. Ln. 3.125pc.
Do. 7½% Irrd. Uns. Ln. 3.75pc.
Finland (Rep. of) 11½% Ln. (reg.) 2009 11.5pc.
Gardner (D. C.) 1.3p
Goode Durrant 3½% Prf. *0.875p*
Govett Strategic Inv. Tst. 9⅞% Deb. 2017 4.9375pc.
Hibernian 1.75p
IMI 4.2p
Inch Kenneth Kajang 3p
Johannesburg Cons. 90cts.
Magnolia 1.75p
Manders Hldgs.5% Prf. 1.75p
Merton (London Borough of) 11¼% Red. 2017 5.625pc.
Metropolitan Water Southwark & Vaux. Wtr. 3% Deb. 1.5pc.
Mid Wynd Intl. Inv. Tst. 2.9p
Molins 3p
Morgan (J. P.) 45.5cts.
Motorola 19cts.
Norcros 15¾% Deb. 90/ *95 787.5p*
Occidental Petroleum 62.5cts.
Pacific Gas & Elect. 38cts.
Pentos 0.6p
Pittencrieff 2p
Quaker Oats 39cts.
Rexmore 13% (Net) Cnv. Red. Prf. 91/92 6.5p
Richards 5½% Pfd. 1.44375p
Do. 4% Pfd. 1.4p
Royal Tst. Gov. Securities Fd. Ptg. Red. Prf. 1.625p.
Sindall (Wm.) 5⅝% Cnv. Red. Prf. 2.8125p
Smithkline Beecham A 3.4p
Smithkline Beecham/ Smithkline Beckman Corp. Equity Units 42.56cts.
Treasury 10% Ln. 1993 5pc.
Warner Estate 10¾% Prf. 5.375p
Wereldhave Prop. 9½% 1st Mtg. Deb. 2015 4.75pc.
Do. 10¾% 1st Mtg. Deb. 2015 5.375pc.
Wickes 1p
Young 2.6p

TOMORROW
Black (A. & C.) 4.25p
Hamilton Oil Corp. 2.5cts.
Linread 2p
NatWest. Bank 6.125p
News Corp. 5cts.
News Intl. 2.125p
Swansea (City of) 13¾% *Red. 2006 6.875pc.*
Treasury 2½% IL 2020 £1.8109

WEDNESDAY
OCTOBER 17
Abbey National Fltg Rate Nts. 2000 £378.08
American Tst. 1.45p
Armitage Bros. 2.8p
BBL Intl. NV Gtd. Fltg. Rate Nts. 1999 $220.81
Barclays 9.15p
Barclays Bank Und. Fltg. Rate Prim. Cap. Nts. Ser. 3 £9767.12
Bletchley Motor 4.1p
Citicorp O'seas Fin. Corp. NV Gtd. Fltg. Rate Nts. 1982 $207.64
Leeds Perm. Bldg. Soc. Fltg. Rate Nts. 1994 £189.83
Malaysia 9½% Bds. 1996 Fltg. Rate Nts. 2015 $419.96
Pifco Hldgs. 4p
Do. A 4p
Plaxton 3p
Scandinavian Fin. BV Fltg. Rate Serial Nts. 1993 $270.69
State Bank of Victoria Gtd. Und. Cap. Nts. $441.61
Wells Fargo Fltg. Rate Sub. Nts. 1997 $217.22
Woolwich Bldg. Soc. Fltg. Rate Nts. 1993 £381.23

THURSDAY
OCTOBER 18
Allied London Props. 5¾% Cnv. Red. Prf. 2.875p
Alpha Estates 1.8125p
Ambassador Security 0.25p
Asahi Brew. 7% Bds. 1995 3.5pc.
Brasway 0.54p
Conversion 9½% 2005 4.75pc.
Do. New 9½% 2005 £0.7288
Echlin 17.5cts.
Howard Hldgs. 0.9p
Northern Rock Bldg. Soc. Fltg. Rate Nts. 1995 £190.62
Nova Scotia 11¾% Ln. 2019 5.875pc.
Pacific Dunlop 9.07% 18/ 10/91 Iss. 16 4.535pc.

FRIDAY
OCTOBER 19
Chieftain 1.9p
Control Securities 0.75p
Cooper (Alan) 2.8p
Ford Sellar Morris Props. 4.5p
Magnetic Materials 2.1p
McAlpine (Alfred) 4.5p
Microvitec 0.1p
Nippon Telegraph & Telephone Corp. 10¼% Nts. 1999 5.125pc.
Parkins Foods 1.5p
Porvair 1p
Queens Moat Houses 1.22p
SWP 0.6p
Saville Gordon (J.) 1.7p
Scottish Heritable Tst. 1.5p
Sennah Rubber *50p*
Smith (W. H.) A 7.5p
Do. B 1.5p
Sata-Plus 2.75p
WSP Hldgs. 1.1p
Wentworth Intl. 1p
Wholesale Fittings 13.39p
Wimpey (George) 4p

SATURDAY
OCTOBER 20
Elbief 0.465p
Islington Corp. 11.9% Red. 2017 5.95pc.
Wells Fargo 100cts.

SUNDAY
OCTOBER 21
Christiania Bank OG Kreditkasse Fltg. Rate Sub. Nts. 1997 $457.50

SOCIETE NATIONALE DES CHEMINS DE FER FRANÇAIS

US$ 75,000,000 11 1/2 % Guaranteed Bonds due November 15, 1992

On October 2, 1990, Bonds for the amount of US$ 10,715,000 have been drawn for redemption at par on November 15, 1990.
The following Bonds will be redeemable coupon due November 15, 1991 and following attached:

[illegible]

Amount outstanding: US$ 21,425,000

Bonds previously drawn and not yet presented for redemption: 184 187 196 198 204 222 243 247 256 260 262 266 274 276 283 284 288 293

Bondholders are hereby reminded that S.N.C.F. decided to prepay, on November 15, 1990, in accordance with paragraph 6(B) *Optional Redemption* of the Description of the Bonds, the total amount remaining outstanding after the above-mentioned drawing (i.e. US$ 21,425,000) at 101 1/2 % of their principal amount, as already published on September 27, 1990.

Luxembourg, October 15, 1990

The Fiscal Agent
KREDIETBANK
S.A. LUXEMBOURGEOISE

WORLD STOCK MARKETS

CANADA

TORONTO
Closing prices October 12

MONTREAL
Closing prices October 12

Sales	Stock	High	Low	Close	Chng
277	BombrdrA	$15½	15½	15½	+ ¼
88380	BombrdrB	$14½	14¼	14½	
63835	Cambior	$12¼	11⅝	11⅝	−1¼
8050	Cascades	$3.50	3.40	3.40	−10
900	DomTxtA	$08¼	08¼	08¼	+ ⅛
15363	Memotec	$07⅞	07⅞	07⅞	
139006	NatBk Cda	$07⅞	07¼	07⅞	+ ⅛
92310	Power Corp	$14⅞	14⅜	14½	+ ⅛
2034	Provigo	$09	09	09	
6540	Quebecr B	$10¼	10⅛	10⅛	− ⅛
120	Videotron	$09½	09½	09½	+ ⅛

Total Sales 7,198,313 shares.

f−No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Oct. 12	Oct. 11	Oct. 10	Oct. 9	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2398.02	2365.10	2407.92	2445.54	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	88.86	88.80	88.86	89.09	93.04 (3/1)	88.44 (24/9)	—	—
Transport	829.70	823.96	835.43	841.35	1212.77 (6/6)	823.96 (11/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	205.86	201.96	203.60	204.67	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2428.71 (2427.23) Low 2349.75 (2344.31)

STANDARD AND POOR'S	Oct. 12	Oct. 11	Oct. 10	Oct. 9	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	300.03	295.46	300.40	305.10	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	351.42	346.86	353.11	358.67	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	19.68	19.24	19.76	20.14	31.87 (3/1)	19.24 (11/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	164.42	162.20	164.97	167.41	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	293.97	293.71	299.26	303.05	382.45 (5/1)	293.71 (11/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	327.56	325.61	333.25	339.11	469.60 (16/7)	325.61 (11/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Oct. 5	Sep.28	Sep.21	year ago (approx.)
Dow Industrial Div. Yield	4.04	4.14	4.03	3.62

	Oct.10	Oct. 3	Sep.26	year ago (approx.)
S & P Industrial div. yield	3.56	3.42	3.49	3.20
S & P Indl. P/E ratio	14.28	14.85	14.55	13.00

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Centerior	7,302,300	17⅞	+ ¼
Wal-Mart Stores	4,030,400	26	+ ⅝
Citicorp	2,811,500	13⅝	...
Phillip Morris	2,591,100	44⅞	+ ½
IBM	2,308,100	100¼	− ¼
Gen Electric	1,847,600	53	+ 1⅞
Waste Man	1,688,800	30¼	+ ⅞
Walt Dis	1,676,900	90¼	− ¼
Chem Bkg Corp	1,659,100	12⅝	− ⅝
Pepsico	1,658,200	23¼	+ 1⅛

TRADING ACTIVITY

† Volume (Millions)	Oct. 12	Oct. 11	Oct. 10
New York	187,940	182,141	167,890
Amex	11,983	13,707	10,913
NASDAQ	(u)	140.846	121.041
Issues Traded	1,974	1,995	1,980
Rises	919	303	351
Falls	632	1,284	1,207
Unchanged	423	408	422
New Highs	3	2	1
New Lows	231	380	278

CANADA

TORONTO	Oct. 12	Oct. 11	Oct. 10	Oct. 9	1990 HIGH	1990 LOW
Metals & Minerals	2624.74	2632.65	2708.95	2811.80	3453.05 (4/1)	2624.74 (12/10)
Composite	3047.94	3055.29	3109.87	3139.50	4009.47 (3/1)	3047.94 (12/10)
MONTREAL Portfolio	1622.54	1621.76	1652.76	1670.41	2060.90 (3/1)	1621.76 (11/10)

	Oct. 12	Oct. 11	Oct. 10	Oct. 9	1990 HIGH	1990 LOW
AUSTRALIA All Ordinaries (1/1/80)	1326.1	1341.1	1360.2	1375.4	1713.7 (12/1)	1326.1 (12/10)
All Mining (1/1/80)	640.3	658.0	669.4	677.6	860.8 (9/1)	640.3 (12/10)
AUSTRIA Credit Aktien (30/12/84)	443.85	425.81	425.79	431.72	703.29 (19/3)	400.98 (25/9)
BELGIUM Brussels SE (Cash Mkt) (1/1/80)	5080.01	5080.92	5071.15	5131.49	6599.43 (12/1)	4959.99 (25/9)
DENMARK Copenhagen SE (3/1/83)	338.31	337.52	336.80	339.00	388.29 (20/7)	331.41 (27/9)
FINLAND Unitas General (1975)	429.8	420.5	423.5	429.4	677.3 (23/1)	419.8 (12/10)
FRANCE CAC General (31/12/82)	422.45	421.92	421.68	427.54	564.62 (30/5)	410.18 (26/9)
CAC 40 (31/12/87)	1575.70	1541.76	1541.04	1549.07	2129.32 (20/4)	1485.39 (25/9)
GERMANY FAZ Aktien (31/12/58)	624.47	610.26	602.27	618.37	832.32 (19/7)	569.69 (28/9)
Commerzbank (1/12/53)	1791.7	1750.0	1728.80	1772.7	2414.0 (3/4)	1628.7 (28/9)
DAX (30/12/87)	1459.78	1428.36	1407.11	1433.41	1968.55 (30/5)	1334.89 (28/9)
HONG KONG Hang Seng Bank (31/7/64)	2915.26	2884.41	2872.41	2913.52	3559.89 (23/7)	2738.24 (1/2)
IRELAND ISEQ Overall (4/1/88)	1271.66	1264.76	1258.53	1295.02	1893.10 (22/1)	1207.47 (1/10)
ITALY Banca Com. Ital. (1972)	554.74	555.95	556.82	566.95	763.52 (14/6)	554.30 (25/9)
JAPAN Nikkei (16/5/49)	22390.16	22585.63	(c)	23495.11	38712.88 (4/1)	20221.86 (1/10)
Tokyo SE (Topix) (4/1/68)	1663.69	1671.68	(c)	1728.69	2867.70 (4/1)	1523.43 (1/10)
2nd Section (4/1/68)	3028.69	3079.62	(c)	3146.12	4477.16 (16/7)	2859.49 (1/10)
MALAYSIA KLSE Composite (4/4/86)	471.22	469.08	470.09	474.46	632.22 (1/8)	459.08 (28/9)
NETHERLANDS CBS Ttl.Rtn.Gen.(End 1983)	232.4	231.6	232.6	231.8	271.9 (20/7)	228.2 (28/9)
CBS All Shr (End 1983)	170.6	170.1	170.8	170.2	206.3 (3/1)	167.6 (28/9)
NORWAY Oslo SE (Ind) (2/1/83)	756.18	762.09	773.20	775.04	915.13 (2/8)	701.67 (2/1)
PHILIPPINES Manila Comp (2/1/85)	545.18	540.62	552.34	571.81	1160.70 (21/3)	514.80 (5/10)
SINGAPORE SES All-Singapore (2/4/75)	305.08	301.45	303.27	307.58	446.87 (16/7)	301.45 (11/10)
SOUTH AFRICA JSE Gold (28/9/78)	1445.04	1438.0	(c)	1509.0	2230.0 (16/1)	1322.0 (28/6)
JSE Industrial (28/9/78)	2675.00	2674.0	(c)	2682.0	3211.0 (6/2)	2640.0 (1/10)
SOUTH KOREA** Korea Comp Ex. (4/1/80)	635.74	621.93	617.12	(c)	928.82 (4/1)	566.27 (17/9)
SPAIN Madrid SE (30/12/85)	(c)	216.22	217.59	219.54	309.74 (16/7)	209.37 (28/9)
SWEDEN Affärsvärlden Gen. (1/2/37)	(u)	969.9	969.8	983.0	1329.9 (5/7)	910.0 (28/9)
SWITZERLAND Swiss Bank Ind. (31/12/58)	647.8	647.6	642.9	648.0	845.5 (13/7)	613.4 (28/9)
TAIWAN** Weighted Price (30/6/66)	2620.65	2573.45	(c)	2746.25	12495.34 (10/2)	2560.47 (1/10)
THAILAND Bangkok SET (30/4/75)	642.37	644.43	655.55	682.19	1143.78 (25/7)	613.95 (25/9)
WORLD M.S. Capital Intl.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. ‡ Excluding bonds. ♦ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday 12 October 1990

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

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Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks.						
Admin. 0296 394000 Dealing: 0296 312156						
American Eagle	5	53.35	53.35	57.02	1.35	41482
Australia	5	5.421	5.421	5.804	4.60	41483
Equity	5	140.3	140.3	150.6	6.11	41486
Euro Spec Sits	5	94.95	94.95	101.9	0.68	41487
Financial	5	24.53	24.71xd	26.58	3.26	41488
Global Opps Inc	5	55.81	55.81	60.05	0.00	41489
Global Opps Acc	5	56.23	56.23	60.51	0.00	41490
Gold & Gen Inc	5	36.34	36.34	39.09	1.02	41491
Gold & Gen Acc	5	67.74	67.74	72.85	1.02	41492
Income	5	86.78	86.78xd	93.44	6.64	41493
Japan & General	5	104.1	104.1	112.1	0.00	41494
Preference Share	5	17.43	17.70xd	19.04	13.93	41497
UK Capital	5	76.58	76.58	82.18	4.25	41500
World Income	5	51.55	51.55xd	55.34	6.38	41501
Worldwide Capital	5	143.3	143.3	154.2	3.55	41502
Templeton Unit Trust Managers Ltd (1200)F						
Atholl Crescent, Edinburgh EH3 8HA 031 228 3932						
Global Growth Acc	6	87.40	88.13	94.25	3.93	46671
Global Growth Inc	6	83.98	84.67	90.56	3.93	46672
Global Balanced Acc	6	88.98	89.49	95.71	5.03	46669
Global Balanced Inc	6	82.89	83.37	89.16	5.03	46670
Value Tst Acc	6½	67.39	68.49	73.26	4.60	43642
Value Tst Inc	6½	65.71	66.78	71.43	4.60	46490
Intl Per & Ch Inc	2	84.78	86.05	90.34	4.01	46489
Intl Pen & Ch Acc	2	81.82	83.04	87.18	4.01	41505
Thornhill Unit Trust Managers Ltd (1200)F						
28 St John's Sq, London EC1M 4AE 071-251 6767						
Capital	5	45.87	46.17	49.11		47874
Overseas	5	38.43	38.62	41.08		43776
Thornton Unit Managers Ltd (1000)F						
33 Cavendish Sq London W1M 0DH 071-493 7262						
Dealing 071-493 8545						
American Opps	5	37.70	37.70	40.20	0.28	41506
(Accum Units)	5	38.80	38.80	41.37	0.28	41507
Cash	0	50.57	50.57	50.57	13.72	45248
Accum Units	0	50.57	50.57	50.57	13.72	45249
European Opps	5	56.18	56.31	60.05	0.00	41508

	Bid Price	Offer Price	Yield Gross	City-line
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Expt Oct 10	37.0	38.4	2.83	41064
Euro Expt Oct 10	46.9	48.1	2.72	41065
Fixed Int Ex Oct 10	43.7	44.8	11.22	46594
Japan Expt Oct 10	39.9	41.5	0.86	41066
Managed Ex Oct 11	37.0	38.4xd	5.28	41067
SE Asia Expt Oct 10	52.9	55.5xd	3.59	41068
Sm Cos Expt Oct 10	30.6	32.1	5.20	41069
UK Eqty Ex Oct 10	36.8	38.6	4.17	41070
Phillips & Drew Fund Management Ltd				
Small Co's Oct 3	587.8	630.6	5.55	41138
Do Accum	653.7	701.2	5.55	41139
Int Expt Oct 10	140.7	143.0	4.24	41140
UK Index Oct 3	955.0	975.6	5.25	46945
Do Accum	1009	1029	5.25	46946
Convertible Oct 5	76.01	78.53	9.75	46938
World ex UK Index Oct 8	627.6	636.0	2.24	47887
Do Accum	627.6	636.0	2.24	47888
Japan Index Oct 8	507.8	515.2	0.62	47881
Do Accum	508.8	516.1	0.62	47882
USA Index Oct 8	718.5	723.2	3.68	47885
Do Accum	728.6	733.3	3.68	47886
European UK Index Oct 8	770.6	789.4	3.12	47879
Do Accum	782.6	801.6	3.12	47880
Pacific ex Jap Index Oct 8	734.9	757.1	5.59	47883
Do Accum	748.8	771.3	5.59	47884
Managed Exempt Oct 10	89.43	91.07	5.55	40338
American Exempt Oct 10	92.60	94.20	4.27	–
European Exempt Oct 10	99.15	100.4	4.59	–
Japan Exempt Oct 10	103.7	104.9	0.75	–
Pacific Basin Oct 10	97.0	100.1	4.26	–
NM Rothschild Asset Management Ltd				
NC Managed	151.4	54.7xd	4.62	40339
NC Property	174.3	191.2	–	41205
J. Rothschild Fund Managers Ltd				
Intl Exempt Accum.	117.6	118.6	4.23	44085
Stewart Ivory & Co Ltd				
Saints PPP Sept 14	231.1	243.3	0.00	41422
Closed to new business				

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
American Life Insurance Co UK				
2-8 Altyre Road, Croydon CR9 2LA 081-680 6000				
Life Funds (Accumulation Units)				
Premier Managed	138.6	146.0	–	41769
Alpha Managed	88.5	93.3	–	42758
HICA Managed	100.7	84.9	–	41767
Pension Funds (Accumulation Units)				
Premier Managed	165.5	174.3	–	41770
Alpha Managed	95.8	101.0	–	41768
Avon Insurance Plc				
Tiddington Rd Stratford-upon-Avon CV37 0789 204211				
Bonus Fund	67.69	69.08	–	41772
Barclays Life Assur. Co Ltd				
252 Romford Road London E7 081-534 5544				
Barclaybond	400.9	422.1	–	41773
Managed Accum	335.9	353.6	–	41774
Equity Accum	530.6	558.6	–	41775
Property Accum	287.7	302.9	–	41776
International Accum.	230.3	242.5	–	41777
Gilt-edged Accum	241.0	253.7	–	41778
Money Accum	230.6	242.3	–	41779
American Accum	123.4	129.9	–	41780
Australia Accum	128.0	134.8	–	41781
Financial Accum	206.9	217.8	–	41782
"500" Accum	268.0	282.1	–	41783

	Bid Price	Offer Price	Yield Gross	City-line
Clerical Medical/Fidelity International – Contd.				
Cash	147.0	154.8	–	41957
North American	96.5	101.6	–	41958
Far East	165.4	174.2	–	41959
International	126.4	133.1	–	41960
Special Situations	195.9	206.3	–	41961
International Income	180.6	190.2	–	41962
American Income	90.8	95.6	–	41963
European	205.3	216.2	–	41964
South East Asia Fund	145.7	153.4	–	41965
Japan Fund	101.4	106.8	–	41966
Evergreen	75.8	79.8	–	46005
Homebuyer W-F Reg	117.4	123.6	–	46325
Homebuyer W-P Spec	117.4	123.6	–	46326
Flexible Retirement Plan				
Managed	181.5	191.1	–	41967
Equity	211.1	222.3	–	41968
Property	164.7	173.4	–	41969
Gilt & Fixed Interest	150.3	158.3	–	41970
Indexed Linked	129.2	136.0	–	41971
Cash	180.6	190.2	–	41972
North American	113.0	119.0	–	41973
Far East	182.4	192.1	–	41974
International	151.6	159.6	–	41975
Special Situations	248.2	261.3	–	41976
European	252.7	266.0	–	41977
Executive Investment Pension Plan				
Prices on October 10 Unit dealings on Wednesday				
Cash Fd	219.9	231.5	–	41978
Mixed Fd	254.7	268.2	–	41979
Fixed Int. Fd	189.9	199.9	–	41980
UK Equity Fd	338.2	356.1	–	41981
Property Fd	193.2	203.9	–	41982
Overseas Fd	163.0	171.6	–	41983
Index Linked Fd	141.7	149.2	–	41984
Stock Ex Fd	208.0	219.0	–	41985
North Am Fd	121.2	127.6	–	41986
Far East Fd	195.3	205.3	–	41987
Special Sits Fd	249.9	263.1	–	41988
Europ. Fd	255.0	268.5	–	41989
Clerical Medical Investments Group				
Narrow Plain Bristol BS2 0JH 0272-290566				

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FT MANAGED FUNDS SERVICE

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National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	299.7	315.5	—	43163
UK Equity	382.0	402.2	—	43164
Overseas Eq	278.8	293.5	—	43165
American	197.5	207.9	—	43166
Far East	293.2	308.7	—	43167
Property	188.9	198.9	—	43168
Fixed Int	230.7	242.9	—	43169
Indexed Gilt	143.3	150.9	—	43170
Deposit	170.8	179.8	—	43171
Pension Fund (Accum Units)				
Managed	414.5	436.4	—	43173
UK Equity	485.9	511.5	—	43175
Overseas Eq	458.1	482.3	—	43177
American	263.3	277.2	—	43179
Far East	489.3	515.1	—	43181
Property	231.3	244.0	—	43183
Fixed Int	279.7	294.5	—	43185
Indexed Gilt	157.5	165.8	—	43187
Deposit	234.1	246.5	—	43189
NPI Pensions Management Ltd				
Managed Fund	908.9	925.1	—	43190

Prices Oct 3 Next dealing Nov 1

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	Yield Gross	City-line
NUAM Funds				
Managed Fund	60.5	63.7	—	43191
Stock Market Mngd Fund	56.6	59.5	—	43192
Equity Fund	65.7	69.1	—	43193
International Fund	48.3	50.9	—	43194
European Fund	59.8	63.0	—	43195
North American Fund	45.3	47.7	—	43196
Pacific Fund	49.4	52.0	—	43197
Property Fund	87.4	92.0	—	43198
Fixed Interest Fund	52.4	55.1	—	43199
Index linked Sec Fund	58.2	61.2	—	43200
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Providence Capital Life Assc. Co Ltd — Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Total Investment Bond				
UK Equity Initial	130.2		—	43429
UK Fixed Int Initial	107.1		—	43430
Intl Equities Initial	100.1		—	43431
UK Managed Initial	105.1		—	43432
Property Initial	164.5		—	43433
Money Initial	83.6		—	43434
Special Market Initial	93.2		—	43436
Japan Equity Initial	70.3		—	46762
North American Initial	58.7		—	43437
Pacific Initial	57.7		—	43438
Technology Initial	80.1		—	43439
Nat Resources Initial	46.8		—	43440
European Initial	80.7		—	43442
Residential Prop Init	94.0		—	43443
Swiss Equities Initial	29.9		—	43444
Hong Kong Initial	42.3		—	43445
UK High Inc Eq Init	58.8		—	43446
Int Fixed Interest Init	49.0		—	46408
Int Managed Init	48.6		—	46409
MIP Managed Init	95.5		—	46782
MIP Managed II Initial	84.0		—	41927
Broker Funds				
High Performance	60.0	63.2	—	43448
Tewrhill Mngd Fd Acc	38.5	40.6	—	43447
YRA Executive Fd	80.1	84.4	—	43449
£ Global Growth Acc	107.7	113.6	—	47160
£ High Income Money Acc	131.6	138.8	—	47161
IM Balanced		45.7	—	47162
H.F. Specialist Fd		112.9	—	43451
PEP Acorn II		102.5	—	46486
PEP Cautionary		66.8	—	47163
AAFS Int Man Fund		108.6	—	46651
Adrian-Grant Inv Fnr		76.8	—	47914
Individual Pension Funds				
UK Equity Acc	205.3	216.6	—	43454
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Royal Heritage Life Assurance Ltd — Contd.

	Bid Price	Offer Price	Yield Gross	City-line
Global Inc & Grth	103.9	[illegible]	[illegible]	[illegible]
Worldwide Recovery	84.1	[illegible]	[illegible]	[illegible]
European Select Opps	124.3	[illegible]	[illegible]	[illegible]
Pacific Growth	121.7	[illegible]	[illegible]	[illegible]
Intl Managed	64.8	[illegible]	[illegible]	[illegible]
Perpetual Funds				
International Growth	93.5	[illegible]	[illegible]	[illegible]
Income	94.8	[illegible]	[illegible]	[illegible]
American Growth	75.1	[illegible]	[illegible]	[illegible]
Intl Emerging Cos	92.4	[illegible]	[illegible]	[illegible]
Far East Growth	118.4	[illegible]	[illegible]	[illegible]
European	119.7	[illegible]	[illegible]	[illegible]
Managed	99.8	[illegible]	[illegible]	[illegible]
TSB Funds				
Income	102.6	[illegible]	[illegible]	[illegible]
Managed	116.9	[illegible]	[illegible]	[illegible]
Broker Managed				
City Capital Bond	168.3	[illegible]	[illegible]	[illegible]
Birchwood	227.8	[illegible]	[illegible]	[illegible]
Hardwick Inv Mngt	108.0	[illegible]	[illegible]	[illegible]
Sterling Cap Growth	89.2	[illegible]	[illegible]	[illegible]
Commodity Servs Fund	38.4	[illegible]	[illegible]	[illegible]
Scoulegh Inv Man Bd	124.1	[illegible]	[illegible]	[illegible]
Western Counties Mng	119.0	[illegible]	[illegible]	[illegible]
Fosters International	157.0	[illegible]	[illegible]	[illegible]
Richards, Longstaff	113.5	[illegible]	[illegible]	[illegible]
Heritage Mngd Bond	147.5	[illegible]	[illegible]	[illegible]
DDA Gilbey Mngd Eq Fd	81.0	[illegible]	[illegible]	[illegible]
Guy Bramley Fd	135.3	[illegible]	[illegible]	[illegible]
J J Barrington Int Fd	111.5	[illegible]	[illegible]	[illegible]
G & T Smaller Cos Fd	70.5	[illegible]	[illegible]	[illegible]
J J Barrington Mngd	95.0	[illegible]	[illegible]	[illegible]
Charles Stanley	289.0	[illegible]	[illegible]	[illegible]
Ethical Inv	114.6	[illegible]	[illegible]	[illegible]
Investors Income Bd	83.2	[illegible]	[illegible]	[illegible]

Sun Alliance International Life
PO Box 77, New St, St Peter Port, Guernsey 0481 714108

	Bid Price	Offer Price	Yield Gross	City-line
North American Equity $	57.56	6.14	—	45824
Pacific Equity $	37.06	7.60	—	45825
Intl Currency $	$4.74	4.57	—	45826
Intl Bond Fund $	$6.81	7.33	—	45827
Gilt Fund £	[illegible]	[illegible]	—	[illegible]
US Dollar Mngd Fd $	$1.54	1.66	—	[illegible]
Stlg Managed Fd £	£1.01	1.09	—	[illegible]

Target International Group

1 rue Emile Blanc, Luxembourg Tlx 2809 Tel [illegible]

	Bid Price	Offer Price	Yield Gross	City-line
Sterling Pens Plan	£0.73	0.77	—	[illegible]
US Dollar Pens Plan	$0.66	0.73	—	[illegible]
Yen Pens Plan	Y230	246	—	[illegible]
Ecu Pens Plan	Ecu0.62	0.68	—	45910
Sterling Man Fd	[illegible]	[illegible]	—	[illegible]

J. D. Ward Financial Services Ltd
9 Kingsway, London, WC2 [illegible] 01-[illegible]

	Bid Price	Offer Price	Yield Gross	City-line
Target Mngd Bond	[illegible]	194.2	—	[illegible]
Target Mngd Pension	[illegible]	[illegible]	—	[illegible]
Albany Life Acc	[illegible]	[illegible]	—	[illegible]
Albany Pens Acc	[illegible]	[illegible]	—	[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Orion Fund Limited

CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc

GUERNSEY (SIB RECOGNISED)

Adams & Neville Fd Mngmt (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Leopold Joseph Fund Mngmt (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prolific International Mngmt Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Funds

GUERNSEY (REGULATED)

Adams & Neville Fund Mngmt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

OFFSHORE INSURANCES

AEtna Intl Assurance (Bermuda) Ltd

Albany International Assurance Ltd

CMI Insurance Co Ltd

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

Finsaco International Ltd

Hansard International Ltd

Isle of Man Assurance Ltd

NEL Britannia International Ltd

NM Life Assurance Int Ltd

Premium Life International Ltd

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plns.) Ltd

Cigna International Fund Mngrs (CI) Ltd

The Analysis Group PLC

Bryan Walls & Partners Ltd

James Campbell & Son Financial Services

Chase de Vere PLC

Clifton Financial Mngmt Ltd

Drummond Moores Plc

Edinburgh Money Management Ltd

Fairmount Gion Reljs Ltd

Gartmore Fund Managers Ltd

Hurstminster Financial Services (Pty) Ltd

I.P.S. Lamont plc

Johnson Fry Financial Services Ltd

Knight Williams & Company Ltd

Moody Financial Management PLC

Northam Biggs & Partners

PBR Fund Management Ltd

Pendleton May Financial Services Ltd

Polley & Co PLC

Roxborough Financial Management Ltd

Rutland Inv Mkg & Inv Grp (“RIBIG”)

Sharp (Albert E.) & Co.

Siltala Fund Managers Limited

South Yorks Investment Management

Tattersall Investment Mngt. Ltd

Towry Law & Co

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	Bid Price	Offer Price	Yield Gross	City-line
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (Dlr)	$9.56	10.15	-	47318
Mngd Portfolio (Stlg)	£3.65	3.92	-	47319
Baring Currency Fund Ltd				
US Dollar		$14.48	-	44754
Sterling		£17.56	-	44755
Deutschemark		DM37.80	-	44756
Japanese Yen		Y3,780	-	44757
Managed	$41.58	43.65	-	44758
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	Dkr115.30	115.50	-	44873
Fipart-Conseil Fund Mngrs (Guernsey) Ltd				
Hauteville G & B Fd	SFr7.82	7.89	1.03	46845
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	£0.3463	0.3693	14.08	45140
Govett Far East Inv.	$0.865	0.925	-	45141
Energy & Resources	$0.674	0.720	-	45142
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$7.4608	7.9310	-	43785
Havelet Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.915	10.459	10.09	47649
Intl Inv-Intl High Inc	$48.525	51.118	5.54	47648
Henderson Admin. (Guernsey)				
Prior Bs Prsicte cap'tal	£0.908	-	-	45225
Balanced Grth $ Prtflo	$1.762	1.899	-	45226
Balanced Grth £ Prtflo	£1.029	1.105	-	45227
Select Mkt $ Prtflo	$1.826	1.976	-	45228
Inc & Grth $ Prtflo	$1.648	1.756	-	45229
High Income £ Prtflo	£0.593	0.628	-	45230
Hill Samuel Fd. Mngrs. (Guernsey) Ltd				
Guernsey Tst.	165.35	69.89	2.77	45254
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Int.Ac. Bd Acc*	£8.449	8.896	-	45356
KB Japan Fund		$205.13	-	45357
KB Sterling Asset	£29.16	29.16	-	45358
*Offer price inclusive of maximum preliminary charge				
Kleinwort Benson Islamic Fd Mgmt Ltd				
Islamic Fund	$5.70	6.10	0.48	45366
Lazard Fund Managers (CI) Ltd				
Lazard Cap Grth Bond	$2809.28	2968.74	8.1	45385
Lazard Cur Acc Fd £	£18.49	18.50	14.2	45367
Lazard Cur Acc Fd US$	$14.56	14.57	6.9	45368
Lazard Cur Acc Fd Y	Y3,790	3,800	7.4	45369
Lazard Cur Acc Fd DM	DM51.04	51.05	7.2	45370
Lazard Cur Acc Fd SF	SFr36.86	36.87	6.9	45371
Lazard Cur Acc Fd FF	FFr156.97	156.98	8.8	45372
Lazard Cur Acc Fd Man	$15.34	16.12	-	45375
Lazard D'fied Bnd (Inc)	$18.86	19.88	8.5	45386
Lazard D'fied Bnd (Acc)	$24.21	25.51	-	45387
Lazard European Fund	$44.89	47.56	1.0	45376
Lazard Far East	$53.10	56.55	-	45377
Lazard Global Equity	$25.28	26.88	-	45378
Lazard Int Inc $ (Inc)	$1022.78	1078.13	8.152	45388
Lazard Int $ Inc (Acc)	$2330.83	2456.94	-	45389
Lazard Int Inc £ (Inc)	£9.11	9.60	10.905	46157
Lazard Int Inc £ (Acc)	£11.82	12.45	-	46158
Lazard Japan Fund	$49.51	52.92	-	45390
Lazard Nth Am	$18.66	19.85	1.0	45379
Lazard Sel Port £ Cap	£11.59	12.51	-	45380
Lazard Sel Port £ Inc	£9.21	9.60	13	45381
Lazard Sel Port $ Cap	$12.42	13.40	-	45382
Lazard Sel Port $ Inc	$8.60	9.07	8.1	45383
M & G (Guernsey)				
Island Global Fd.	804.00	860.01	0.74	45419
Merrill Lynch Int Capital Mngt (Gsy) Ltd				
Bangkok Oct 10		$62.92	-	42709
Iberia Portfolio NAV		$9.22	-	46990
NM Financial Mgmt Intl Ltd				
Mngd. Currency	£6.079	6.388	5.47	45498
NM Portfolio Selection Fund Ltd				
Conscience	£0.8	0.851	1.79	46250
Far East Grth	$1.106	1.176	0.00	46251

	Bid Price	Offer Price	Yield Gross	City-line
Sarasin (Isle of Man) Ltd				
Fergus Fd Oct 4		£11.69	-	47346
UK Trend Oct 4		£8.40	-	47347
Target International (Isle of Man) Ltd				
IMC Offshore Fd.	£7.79	8.43	-	46450
Fleet Street Inv Fd	£7.03	7.48	-	46578
Offshore Income Fd Ltd.	£8.89	9.35	-	46580
Belbos Wines W/W S/S	£8.99	9.49	-	46581
Tattersall Intl Assets	£6.41	6.60	-	46805
Tyndall International (Isle of Man) Ltd				
H.I. Gilt/Bldg.	99.7		-	45884
(Accum Shares)	158.9	166.9	-	45885
Unibank Scandinavian Fund Ltd				
Scandinavia Fd.	164.22	174.76	1.0	45225

JERSEY (SIB RECOGNISED)

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						
Australian Eq (Inc)	5¼	£0.765	0.766	0.823	2.5	44738
Global Income (Inc)	5¼	£0.392	0.392	0.419	4.4	44730
Global Resources R	5¼	£0.332	0.332	0.354	1.3	44742
Currency Fund						
Stg Premium Income R		£10.17		10.18	14.0	47926
Capital House Fund Mgrs (CI) Ltd (0900)H						
PO Box 189, Capital Hse, Bath St., St. Helier, Jersey						
Tel: 0534 74689 (Dealing) 0534 75639 (Helpline)						
Facsimile: 0534 79040 Telex: 4192136						
Capital House International Growth Funds Ltd ●						
Equities						
UK Equity	5	£1.064	1.079	1.145	-	44810
North American	5	$1.308	1.341	1.423	-	44811
Japanese	5	$1.478	1.487	1.578	-	44812
Pacific Basin	5	$2.119	2.143	2.275	-	44813
Continental European	5	$2.346	2.379	2.525	-	44814
Gold	5	$1.299	1.328	1.409	-	44815

	Bid Price	Offer Price	Yield Gross	City-line
Target International Ltd				
Intl Growth Fd	$19.51	20.5910	-	45840
Templeton Worldwide Investments				
Growth Portfolio				
Class A-1 $		$8.61	-	41215
Class A-2 $		$8.91	-	41217
Class A-3 $		$8.75	-	41221
Class B-1 $		$8.51	-	41235
Class B-2 $		$8.81	-	41236
Income Portfolio				
Class A $		$11.50	-	41257
Class B $		$11.13	-	41246

	Bid Price	Offer Price	Yield Gross	City-line
GW Investment Mngmt Ltd				
GW Guaranteed Futures Ltd-Ser I NAV July 31 US$9.13				
Gaia Currency Funds				
Gaia Hedge I	$119.71	120.14	-	46269
Gaia Hedge II	$290.71	294.53	-	46270
Gaia Hedge III	$138.99	142.16	-	45340
Gaia Gtd Crncy	$86.57	-	-	45341
GAM Fund Management Ltd (u)				
GAM Universal US Dlr Acc		$105.50	-	40337
GAM Universal US Dlr Inc		$105.50	-	40340
GAM Universal DM Acc		DM103.30	-	40341
GAM Universal DM Inc		DM103.30	-	40342

North Star Fund Managers (Cayman) Ltd

JERSEY (REGULATED**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

[illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Pound finds a base

STERLING HAS not fulfilled some of the more optimistic City predictions during its first week as a full member of the European Monetary System, but it may have formed a solid base on purely technical factors.

UK clearing bank base lending rate 14 per cent from October 8, 1990

On its allowed 6 per cent band of movement, sterling has a theoretical ceiling of DM3.13 and a lower limit of DM2.77, but in practice these extremes can only be reached if the D-Mark is the weakest or strong member of the system.

If another currency is at the top or bottom, the pound will hit its limits against that currency first. This applies at present to the firm Spanish peseta. If the peseta retains its current strength, the pound will hit its lower limit of Pta180.59 at an equivalent rate against the D-Mark of about DM2.88.

Sterling's spot rate against the D-Mark is around the DM3.00 level and on the forward market it is trading at a 12-month discount of some 10.25 pfennigs. This means that the pound can be bought forward at about DM2.8925 against an effective floor of DM2.88, giving encouragement to run long positions without too much risk, unless there is a significant change in the structure of the exchange rate mechanism.

Interest rate factors provide a running profit from a long sterling position against the D-Mark and there is also a good chance of a capital profit if the pound remains above its effective floor. There would be even more reason to buy the pound forward if there is an early move to a 2¼ per cent band limit.

The main risk is that the peseta will not stay as strong in the ERM, but the Bank of Spain has refused to cut interest rates and seems determined to maintain a tight monetary stance to squeeze inflation out of the economy.

£ IN NEW YORK

Oct.12	Close	Previous Close
£ Spot	1.9670-1.9680	1.9770-1.9780
1 month	0.93-0.91pm	0.92-0.90pm
3 months	2.56-2.53pm	2.54-2.51pm
12 months	8.12-8.02pm	8.15-8.00pm

Forward premiums and discounts apply to the US dollar

OTHER CURRENCIES

Oct 12	£	$
Argentina	10938.7 - 11023.2	5540.00 - 5580.00
Australia	2.4120 - 2.4140	1.2220 - 1.2230
Brazil	172.770 - 174.240	87.50 - 88.20
Finland	7.0985 - 7.1220	3.5950 - 3.6000
Greece	297.90 - 302.70	150.90 - 153.30
Hong Kong	15.2940 - 15.3075	7.7540 - 7.7560
Iran	128.90*	65.30*
Korea(Sth)	1400.20 - 1422.80	711.70 - 717.30
Kuwait	N/A	N/A
Luxembourg	61.75 - 61.85	31.25 - 31.35
Malaysia	5.3235 - 5.3360	2.6965 - 2.6985
Mexico	5743.80 - 5748.70	2909.00 - 3009.00
N.Zealand	3.1915 - 3.1965	1.6170 - 1.6190
Saudi Ar	7.3820 - 7.4130	3.7490 - 3.7500
Singapore	3.4085 - 3.4165	1.7260 - 1.7280
S.Af (Cm)	4.9875 - 4.9995	2.5270 - 2.5285
S.Af (Fn)	7.3755 - 7.5155	3.7315 - 3.8025
Taiwan	53.85 - 53.95	27.25 - 27.30
U.A.E.	7.2260 - 7.2625	3.6700 - 3.6735

* Selling rate

STERLING INDEX

CURRENCY MOVEMENTS

CURRENCY RATES

POUND SPOT - FORWARD AGAINST THE POUND

Oct 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9700 - 1.9770	1.9735 - 1.9745	0.94-0.92cpm	5.65	2.56-2.53pm	5.16
Canada	2.2600 - 2.2670	2.2625 - 2.2635	0.34-0.24cpm	1.54	0.68-0.54pm	1.08
Netherlands	3.37¼ - 3.38¼	3.37¼ - 3.38¼	1⅝-1½cpm	5.55	4¼-4pm	4.89
Belgium	61.55 - 61.95	61.75 - 61.85	28-22cpm	4.85	73-63pm	4.4
Denmark	11.39¾ - 11.45¾	11.44½ - 11.45½	3¼-3¼orepm	3.67	9½-8pm	3.06
Ireland	1.1150 - 1.1205	1.1195 - 1.1205	0.45-0.40ppm	4.55	1.15-1.00pm	3.84
Germany	2.99 - 3.00¼	2.99 - 3.00	1½-1¼pfpm	5.76	3⅝-3½pm	4.76
Portugal	261.95 - 263.85	262.40 - 263.40	⅛-¼cpm	0.01	⅛-¼pm	0.01
Spain	187.60 - 189.00	187.60 - 187.90	60-100cdis	-5.11	180-300dis	-5.11
Italy	2243 - 2252¼	2245 - 2246	6½-5lirepm	3.07	15½-13¼pm	2.56
Norway	11.59¾ - 11.64¼	11.61¾ - 11.62¾	2¾-2¼orepm	2.38	6¼-5½pm	2.11
France	10.01 - 10.05½	10.03¾ - 10.04¾	3½-3¼cpm	4.03	8¼-8¼pm	3.41
Sweden	11.06¾ - 11.15¼	11.13¾ - 11.14¾	⅛-⅛orepm	0.54	¼dis-¼pm	-0.02
Japan	253¼ - 254½	253½ - 254½	1⅜-1¼ypm	6.2	3¼-3¼pm	5.22
Austria	21.05 - 21.12	21.05 - 21.08	9¼-8¼gropm	5.16	25½-23¼pm	4.63
Switzerland	2.51½ - 2.53	2.51¼ - 2.52¼	1¼-1¼cpm	6.24	3½-3¼pm	5.45
ECU	1.4440 - 1.4500	1.4480 - 1.4490	0.51-0.48cpm	4.1	1.35-1.29pm	3.65

Commercial rates taken towards the end of London trading. Six-month forward dollar 4.77-4.72cpm. 12 Month 8.15-8.05cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

CHICAGO

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

FINANCIAL TIMES STOCK INDICES

	Oct 12	Oct 11	Oct 10	Oct 9	Oct 8	Oct 5	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs.	79.97	79.97	79.98	80.22	80.74	78.98	84.20	74.13	127.4	49.18
Fixed Interest	88.99	88.98	88.97	89.14	88.50	86.80	92.91	83.80	105.4	50.53
Ordinary	1622.0	1618.9	1626.7	1640.5	1705.7	1655.6	1968.3	1510.4	2008.6	49.4
Gold Mines	170.9	172.5	175.9	178.2	179.3	184.8	378.5	167.9	734.7	43.5
FT-Act All Share	1013.31	1013.99	1021.20	1027.82	1058.54	1026.04	1226.83	962.09	1238.57	61.92
FT-SE 100	2100.4	2102.2	2121.8	2134.1	2201.6	2143.9	2463.7	1990.2	2463.7	986.9

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

AMERICANS—Contd

CANADIANS

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

Wimbledon & South West Finance Co Ltd

Citibank Savings

Continued on next page

LONDON SHARE SERVICE

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS — Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING — Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]

INDUSTRIALS (Miscel.) — Contd

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

MOTORS, AIRCRAFT TRADES — Contd

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY — Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST — Contd

INVESTMENT TRUST — Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES — Contd

Miscellaneous

THIRD MARKET

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

● "Tap Stock"
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially listed.
# Price at time of suspension
♣ Not comparable
† Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend
★ Cover does not allow for shares which may also rank for dividend at a future date.
‖ No par value

B.Fr. Belgian Francs. Fr. French Francs ◉ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights, xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency

Craig & Rose £1.. γ	700	......
Finlay Pkg. 5p. .. γ	43xd	-5.5
Holt (Jos) 25p..... γ	1305xd	1.0

IRISH

Cap. 8½% Ln 1991..	£98¼	0.3
9pc Cap Ln 1996..	£93¼	0.3
Fin. 13% 97/02. .	£110	.....
Arnotts................	188	.....
Carrol (P.J.)........ α	152	2.7
Hall (R. & H.).	165	.. ..
Helton Hldgs . . γ	49	14 d
IRG.	155	3.3
United Drug	130	-4.4

TRADITIONAL OPTIONS
3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	6
Astec (BSR)	4½
BAT	45
BOC Grp	39
BTR	29
Barclays	27
Blue Circle	17
Boots	21
Bowaters	41
Brit Aerospace	43
British Steel	13
Brit. Telecom	22
Cadburys	26
Charter Cons	37
Comm Union	37
Courtaulds	25
Eurotunnel	40
FKI	5½
FNFC	20
Gen Accident	37
GEC	14
Glaxo	57
Grand Met	44
Guardian	15
GKN	27
Hanson	16
Hawker Sidd	39
ICI	70
Ladbroke	22
Legal & Gen	29½
Lex Service	28
Lloyds Bank	21
Lucas Inds	11
Marks & Spencer	18
Midland Bk	28
Nat West Bk	18
P & O Dfd	42
Polly Peck	40
Racal Elect	14
RHM	23
Rank Org Ord	49
Reed Intnl.	30
STC	19½
Sears	8½
SmKl. Beecham A	44
TI	37
TSB	18
Tesco	19
Thorn EMI	49
Trust Houses	21
T&N	14
Unilever	58
Vickers	19
Wellcome	38

Property

Brit Land	24
Control Secs.	3½
Land Securities	42
MEPC	38
Mountleigh	11

Oils

Aviva Petlm	3½
Brit Petroleum	28
Burmah Castrol	44
Conroy Petlm.	20
Gaelic Res.	2
Premier	8½
Shell	40
Tuskar Res.	6
Ultramar	31

Mines

Lonrho	21
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £1050 per annum for each security.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: London & Edinburgh Trust 8⅞% 1st. Cum. Red. Pf. 2013 (Section: Property).
Oryx Gold Hldgs. (Mines-Miscellaneous).

Deletions: Afro-West (Mines-Australians).
Armeno Resources Inc. (Canadians).
Eagle Trust (Industrials).
FKB Group (Paper, Printing, Advertising).
London United Inds. (Insurances).
Really Useful Group (Leisure).
Spargos Mining (Mines-Australians).

4pm prices October 12

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		— A – A – A —								
37½	9½	AAR	.48	4.9	6	784	10	9½	9⅞	+ ⅛
9⅜	7⅛	ACM n	1.01	13.		307	8	7⅞	8	
11⅛	8¼	ACMIn	1.26	14.		411	9⅛	9	9⅛	
9⅜	6½	ACM M	m1.01	16.		546	7	6⅞	6⅞	+ ⅛
12⅛	10	ACMMM	1.50	13.		151	11½	11⅜	11½	+ ⅛
11½	8⅞	ACM Sc	1.26	14.		981	9	8⅞	9	+ ⅛
9⅜	7⅛	ACMSp	1.01	13.		335	7⅞	7⅝	7⅞	
24⅜	14⅝	AL Lab	.18	.9	16	39	17⅞	17⅛	17⅝	− ⅜
5⅛	1⅛	AM Intl				1139	1⅛	d 1⅛	1⅛	
23½	5⅛	AM In pf	2	33.		137	6¼	6	6	
104⅞	39⅞	AMR			10	4325	43⅞	40⅞	43	+2⅞
24⅜	22⅛	ANR pf	2.12	9.2		4	23⅛	22⅞	23⅛	− ⅛
4⅛	2⅛	ARX			6	56	2⅝	2½	2½	
72⅞	42⅞	ASA	3a	6.8		1082	44½	43⅞	43⅞	− ⅜
45⅞	30⅞	AbtLab	s.84	2.1	19	5703	40⅞	40	40½	+ ½
14½	11⅛	AbitibI g	.50			60	11⅞	11⅛	11⅞	+ ⅛
11⅝	4⅞	AcmeC	.40	8.0	6	23	5	5	5	+ ⅛
9⅜	5⅞	AcmeE	.32	5.4	8	5	5⅞	5⅛	5⅞	+ ⅛
32⅜	18⅞	Acuson s			21	825	25⅛	23⅞	24⅞	+1⅜
16⅞	14⅛	AdaEx	2.05e	14.		60	14⅝	14⅝	14⅝	− ⅛
15⅜	10	Adobe				78	10⅞	10½	10⅝	− ⅛
20⅛	17⅝	Adob pf	1.84	10.		14	17⅞	17⅝	17⅞	
21⅝	19⅞	Adob pf	2.40	12.		5	20⅛	20⅛	20⅛	+ ⅛
11⅝	3⅝	AMD			16	12139	4⅛	3⅞	4	− ⅛
32⅜	16	AMD pf	3	18.		39	17⅛	16½	17	− ⅛
9⅛	1⅞	Advest	.16	8.0	25	72	2	1⅞	2	
62½	29⅝	AetnLf	2.76	8.7	5	4006	31⅞	30	31⅞	+1⅛
13⅛	7½	AffPb	.24	3.1		1026	7⅞	7⅝	7⅞	+ ⅛
24½	11⅞	Ahmans	.88	6.8	6	6423	13⅛	12⅝	13	+ ⅛
3½	1⅞	Aileen			9	408	u 3⅞	3½	3⅝	+ ⅛
61	42⅞	AirPrd	1.44	3.3	11	564	44	43	43⅞	+ ⅝
27	14½	AirFrt s	.30	2.0	6	1846	15⅞	14⅝	15	− ½
24½	12	Airgas			22	40	12⅛	12	12⅛	+ ⅛
20⅞	15⅛	Airlease	2.82	18.	6	33	15⅞	d15⅝	15⅝	− ⅛
23½	21⅛	AlaP	pf2.07e	9.0		2099	23⅛	23	23⅛	+ ⅛
10⅛	9	AlaP	dpf.87	9.5		12	9⅛	9⅛	9⅛	+ ⅛
98⅞	90	AlaP pf	9	9.6		z200	94	93½	93½	− ½
93	84	AlaP pf	8.16	9.5		z100	85½	85½	85½	−1
27⅞	13⅞	AlskAir	.20	1.3	8	198	16	15⅛	15⅞	+ ½
21⅝	10	Albnyln	.36	3.4	9	325	10½	10⅛	10⅛	− ⅛
27⅞	19⅛	Alberto	s.20	.9	19	77	23½	23	23⅞	+ ⅝
22⅝	16⅛	AlCulA	s.20	1.2	13	42	16⅝	16⅛	16⅛	− ⅛

Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
47¼	45⅞	Xerox pf				14	45	d45	45	-2
32⅜	15⅝	XTRA	.72	4.8		170	15⅝	d14⅞	15⅛	-½
25¼	15¼	XTRA pf1.94		13.		10	15⅜	15⅛	15⅜	+⅛
4	1	Zapata				377	1⅛	1	1⅛	+⅛
16	4½	ZenithE				1710	4⅞	4⅝	4⅞	+⅛
18⅜	11⅝	ZenNtl	.88	8.1	7	111	11⅛	d10⅞	10⅞	-⅜
8¼	4½	Zenix	.93	19.		335	5¼	5	5	-⅛
17¼	9⅝	Zero	.40	4.1	10	1399	10⅛	9⅞	9⅞	-½
51⅛	30½	Zurnin	.76	2.3	14	278	32½	31½	32⅜	+1⅛
12⅝	10⅛	Zweig	1.19e	12.		450	10⅜	10¼	10¼	
10	7⅞	ZweigTl	.84	10.		1333	8⅛	7⅞	8⅛	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices October 12

NASDAQ NATIONAL MARKET

4pm prices October 12

MONDAY INTERVIEW

The lady is not for turning

Benazir Bhutto, Pakistan's recently ousted prime minister, speaks to **Christina Lamb**

She was the hope of her nation, the toast of the western world. The first female leader of a Moslem state, at just 35 Ms Benazir Bhutto was poised to lift Pakistan out of its social and economic morass and reverse a history plagued by military rule. Few leaders ever started with so much international goodwill. Yet less than two years later she stands in the dock charged with corruption and maladministration by the president her own party elected.

What went so terribly wrong? "It is a clear case of the old order refusing to accept the new," she insists. "My government was not booted out because it failed but was hurriedly dismissed by the president when it became evident that we were going from strength to strength."

Just a few hours after her first court appearance on one of four charges, an emotional Ms Bhutto obviously could not believe what had happened. Gone is the ice-cool maiden whose struggle to avenge the execution of her father, Zulfikar Ali Bhutto, Pakistan's first elected prime minister, captured the imagination of the world. Her face blotchy and her voice one note from hysteria, she repeats: "I feel outraged. I'm the only prime minister whose relatives did not take an industrial unit, who did not have bank loans written off, while the ones who looted the country are pointing their fingers at me."

Her two young children, including the son who will one day be expected to carry on the Bhutto dynasty, play noisily with their nanny while the husband many believe responsible for her downfall sits by for moral support. Known as Mr Ten Per Cent, Asif Ali Zardari, has since been arrested on charges of embezzlement and using undue influence to obtain illegal bank loans.

But Ms Bhutto will have none of this, denouncing the charges against her husband of three years as "ridiculous". She claims: "My government tried to honestly serve the people. A lot of people said there is hanky panky going on. What hanky panky? Are we living in a civilised world or are we back to medieval times when people were burned as witches? If there was corruption why did no one bring me facts?"

On taking office Ms Bhutto faced considerable odds. For the 11½ years since her father was ousted in a coup and subsequently hanged, she as his successor was public enemy number one to the army. Only the death of President Zia ul-Haq in a mysterious air crash in August 1988 paved the way for elections which brought her to power.

Perhaps it was unrealistic to imagine that she would ever be allowed to stay there. The military intelligence acted, she says, as a "state within a state", business was suspicious of her party's socialist platform and much of the influential religious community was against the idea of a woman leader.

Her greatest foe, Mr Nawaz Sharif, was elected chief minister of Punjab, the country's largest province. His Islamic Democratic Alliance, a conservative Moslem alliance backed by the military, is challenging Ms Bhutto's Pakistan People's Party in most constituencies in the October 24 elections.

Ms Bhutto admits the whole episode may have been intended to discredit her in power and thus destroy her politically. "This was a deep-laid plot against me ... I was aware from my first day in office of many attempts to destabilise my government. Each time an attempt failed there would be a gap of two or three weeks before they tried again." She adds: "I was walking a tightrope which the president, Nawaz Sharif, and others were always trying to pull."

But she insists: "I was not a prime minister without portfolio. I did make decisions, we did get things done ... What the president is really saying is that political government should just be the frill, the icing on the cake and that real government should be run by the civil service. I was not prepared to be that kind of prime minister."

But in the end it was her own lack of managerial ability and failure to build a consensus that brought about her downfall. While her stock remained high internationally at home the reality quickly became very different. In spite of the weight of expectations and pressing needs of one of the world's highest birth-rates and lowest literacy rates, there were no social and economic reforms. Law and order deteriorated. Former allies deserted her, attempts to take on the army backfired and the country's second experience of democracy degenerated into political infighting.

The way Ms Bhutto tells it her 20 months of rule saw a social and economic revolution. "The IMF austerity programme had been implemented successfully, the budget deficit brought down, inflation halved. Profitability of banks was up 70 per cent, tax collection by 20 per cent. Investment had increased fourfold. We had arrested 17 top drug barons, our poppy eradication programme was a success, we had overcome a war threat with India and I was to co-chair the world summit on children."

In fact World Bank disbursements to nationalised credit institutions stopped because of distribution of loans without collateral, the IMF suspended payments in June because of failure to meet fiscal targets, literacy worsened, development was minimal, while the defence budget which together with debt servicing eats up 80 per cent of expenditure was actually increased by 50 per cent – something Ms Bhutto oddly cites as "a great achievement". Her own ministers admit that if her government had not been dismissed it would have collapsed. Yet she continues: "You say the only legislation we passed was the budget. But even that was such a tremendous achievement."

Government studies at Oxford and Harvard, it seems, did not equip Ms Bhutto for high office. Under pressure, the most she will admit is "every government makes mistakes. But it becomes hard to judge where the mistake was and where the government wasn't given a chance."

Ms Bhutto repeatedly insists: "I'm the only people's leader." But her isolation from reality is highlighted by the huge steel-reinforced sandstone walls around her house which, protected by gun turrets, resembles a Foreign Legion fortress. In fact, by her own admission Ms Bhutto had no idea of her impending dismissal in spite of warnings from colleagues, the press and the armed forces. The president having assured her aide that he was "not about to do anything extraordinary", she spent the morning of her removal on August 6 preparing a speech for the children's summit. Only when the army trucks moved in did she believe it.

Ms Bhutto remains the leading figure in Pakistani politics. Her human rights record was the best in Pakistan's history and her courage is striking. Somehow most people still dissociate her from the failings of her government and refuse to believe that she was involved in corruption. If the charges result in her disqualification the elections will lack credibility.

The US decision to suspend aid to Pakistan because of fears that Pakistan possesses nuclear weapons has handed Ms Bhutto a useful campaigning tool. "The army should remember the foreign aid I brought in, the 40 F16s we got from the US."

If Ms Bhutto were to win the election she says she will insist on President Ishaq Khan stepping down. "His role has been absolutely immoral. He acts as the leader of the opposition. He spends all his time thinking how he can get Benazir Bhutto." Asked if she believes it possible to return to power without doing a deal with the armed forces against whom she has recently withdrawn her vitriol, she retorts: "The real question is can the army come to terms with an elected government?"

She adds: "Pakistan's main bane is that the political system has not been allowed to develop since the 1950s. Then, voicing the thought which clearly preoccupies her, she muses: "You don't throw out an elected government to let it back in three months."

Ms Bhutto fears her opponents might kill her. "Ever since General Ayub's time [in the 1960s] I've lived under threat of death. Today one never knows when someone will come into your home at midnight pick you up and hang you upside down from a fan and beat you up."

However, Ms Bhutto, playing the role of martyr at which she excels, refuses to be defeated. "I've no doubt that if there were free and fair elections we would win a big majority. They will definitely be rigged. They are arresting our workers on a massive scale and have given $8^3/_4$m to each of their candidates. But though the dice is loaded against us I believe man proposes and God disposes."

'The president's role has been absolutely immoral'

PERSONAL FILE

- **1953** *Born in Karachi.*
- **1973** Graduated from Harvard University.
- **1976** Graduated from Oxford University.
- **1979** Became co-chairperson of People's Party.
- **1984-86** Exile in London.
- **1986** Triumphant return to Pakistan.
- **1987** Married Asif Zardari.
- **1988** *Became prime minister.*
- **1990** Bhutto government *dismissed.*

Private disaster, public sideshow

By Anthony Harris in Washington

It is only right and proper that the gloomiest statement about the economy to emerge from the Business Council meeting at Hot Springs last week came from a banker. The council represents the corporate cream of the US, and its sentiment remains, on the whole, quite robust.

These are companies with high Moody's ratings, and ready access to the commercial paper market; they have no financing problems. Even now only a minority of the 19 companies on the council expect a recession, and most of those who do expect it will be mild.

Not the bankers, though. "Please don't say my face is long," begged Mr John Reed, chairman of Citicorp, which is shortly to publish quarterly results which Wall Street is planning to use as a measuring rod of disaster. "I didn't have a long face." Something short of boosterism there. Mr Lewis Preston of JP Morgan, which has much the best figures among the money-centre banks, could be more open: "I'm afraid it's going to be a little longer and a little deeper" – than the consensus, that is.

The Wall Street community puts it a lot more strongly in private. They know their own agonies, and those of mainstream American companies – medium- and small-sized concerns which depend on banks for credit. They speak of impossible demands for capital adequacy, and of sound concerns put out of business as their credit is cut off by banks struggling to shrink their balance sheets. They mention Washington in this liturgy, but it is not the budget tragi-comedy which concerns them. It is monetary policy, and what they see as a fierce regulatory squeeze.

It would not be reasonable to expect cheerfulness from a community suffering tight margins, heavy write-offs, collapsed share prices and the fear of unemployment. Even when all allowances are made, though, their perspective seems to me (with one exception) more realistic than the editorial (and presidential) hand-wringing over the federal deficit. It will surely seem so to London readers, who are suffering some of the same agonies in a country which enjoys a large fiscal surplus.

The nightmare can be described in the same general terms on both sides of the Atlantic, and indeed in Tokyo: a liquidity squeeze which has sharply reduced asset values, which are then further undermined as large borrowers are forced to liquidate assets in a buyers' market. The degree is different, though. It is only in New York, I believe, that leading institutions (including British banking subsidiaries which seem to leave their commonsense at home along with their woollen underwear) have suffered big losses from exposures to clearly over-leveraged borrowers like Mr Donald Trump.

Some of the smaller banks have been even sillier. Here in Washington, it has emerged that some of the leading property developers enjoyed 100 per cent bank financing, with no collateral. This is a banker's definition of "Heads you win, tails I lose." It was tails. The repentant bankers now blame competitive pressures for these excesses; but given the obvious risks, and the lessons of the Texas disaster, it would be more accurate to call it collective lunacy.

Now we have collective panic instead; and this, of course, is why financial analysts are so much gloomier about the economy than those who run comfortable, over-simplified models of income flows on their desk-tops. It is the financiers, too, who know the psychological threat of a property market slump; it is falling house values which are undermining consumer confidence in 1990, as falling equity values failed to do in 1987.

It is not clear yet whether the consumer-led recession will be deep, let alone whether it will cause the economic implosion which Mr Alan Greenspan would recognise as a true recession. September retail sales were down a little in real terms, but that is all. Retail sentiment is very shaky this month, though. The banking squeeze is also difficult to quantify. It is a killer in property development, and is clearly causing much pain to retailers; but it has hardly had any impact on manufacturing, which still enjoys rising export demand and easy access to working capital. The fairest summery offered at Hot Springs came from Mr Robert Welch, the chairman of General Electric: "I don't know the definition (of a recession), but it feels like one."

How far is Washington to blame? It is here that I would disagree with the Wall Street bankers. The comptroller of the currency (a Treasury official, not the Fed), who is demanding sensible lending criteria, makes a convenient scapegoat; but if he is to blame, it is only for not having been more demanding when the going looked good. This whole tragedy meets the classic Greek standards – hubris among the financial community, and a home-made nemesis of returning and exaggerated caution. The same pattern will be seen in London and Tokyo, where the bureaucratic alibis are quite different.

And what about the budget? The point is this: the $30bn-$40bn which Congress may or may not shave off whatever the deficit would otherwise have been, and even the $500bn it means to cut from the projected growth of the national debt over the next five years, is small change, whether you compare it with what is involved in the banking crisis, or weigh it in the world market for capital. It is a sideshow; at least it is good for a laugh.

The Gulf prods EC unity

IAN DAVIDSON
ON EUROPE

The Gulf crisis, people say, is approaching the moment of truth, when the west must choose between an indefinite embargo and an escalation to war. Whether this received wisdom rests on any really compelling necessity, is open to dispute: but it is having an extraordinary side-effect on Europe.

The phoney war tensions of watching and waiting are giving an enormous extra push to the process of European integration. Even before Iraq invaded Kuwait, that process was being accelerated by the move to German unification. Now it is as if a turbo-charger had been switched on.

The innovation is that the member states are talking seriously and substantively about the integration of their foreign, security and defence policies. It is even possible that the high politics of European integration, long subordinated to the pragmatism of the economic agenda, may now take its place at the apex of the structure.

This shift in priorities is entirely due to President Saddam Hussein. Until August, the centrepiece of the next phase of Community integration was manifestly going to be the programme for Economic and Monetary Union (Emu). The 12 governments had undertaken to negotiate two new treaties, one on Emu and one on so-called political union, starting in December. But nobody really knew what was supposed to be in the political union treaty, apart from some strengthening of the Community institutions; whereas the agenda for the Emu treaty was solid, meaty and contentious, and defined by the detailed recommendations of the Delors committee.

Among the French political elite, the Gulf crisis has had an extraordinary impact on a defence debate long imprisoned by Gaullist dogmas of national independence. In September Mr Jacques Chirac, leader of the opposition Gaullist RPR party, called for a European defence policy based on the nine-nation Western European Union grouping. Mr François Léotard, leader of the liberal Republican party, has denounced the self-indulgent vanity of traditional French foreign policy, and has called for a European defence policy. On the eve of German unification, President François Mitterrand told a German TV interviewer that "a European defence is now urgent".

Just what any of these politicians means by a "European defence" is a matter of some doubt; but such short-term incoherences should not distract attention from the much more important fact that a number of European governments, probably a large majority, are now acutely uncomfortable with a security architecture in which there is no middle ground between national independence and western solidarity (ie dependence on the US).

If there is a shooting war, the amazing international consensus built up by the UN Security Council will almost certainly fly apart, and it will very probably produce a deep split in the ranks of Nato members. As it is, Nato governments face a sufficiently delicate task in keeping the alliance alive, after the collapse of the Soviet threat and with the prospect that most US troops will be withdrawn from Europe. The task will be harder if there is a war in the Gulf, and some European diplomats fear that it could be fatal for Nato's survival.

European governments are therefore compelled to think of new and complementary security structures, based on Europe. Other things being equal, many would rather avoid sensitive questions which infringe both on national independence and alliance solidarity. But as Dr Johnson observed: "When a man knows he is to be hanged in a fortnight, it concentrates his mind wonderfully."

The turning point seems to have been an informal meeting between Community foreign ministers in Venice 10 days ago. Some accounts have suggested a general mood of caution, with few member states willing to envisage far-reaching proposals, notably the Italian proposal to merge WEU in the Community.

But Mr Roland Dumas, the French foreign minister, has given an entirely different picture. He said that he had been surprised at the confidence and even "a certain boldness" of nine of the ministers. "We thought for a long time that a common foreign and security policy would be more difficult than Economic and Monetary Union, [but] it seems now that we have better prospects for political and security union than for Emu."

Some idea of the "boldness" displayed, may be gauged from ideas listed by Mr Dumas: defence ministers could meet in the European Economic Community; the EC Commission could make proposals on foreign policy; foreign policy orientations could be decided by majority vote.

These bold thoughts are not shared by the British government, of course, nor by the two other peripheral countries, Ireland and Denmark. Stuck in a time-warp round about 1943, Mrs Thatcher remains as wedded to the lost ideal of a pan-European free-trade area as she is hostile to anything called political union.

Her alternative vision has ceased to be of interest south of the Channel, however. The French used to be respectfully irritated; now their attitude is of impatient contempt. Last week Mr Dumas raised the stakes, by warning Mrs Thatcher that she could not slow down the process towards Emu, and that it must lead to a central bank and a single currency by 1998 at the latest.

No doubt the French are talking up their book. But Britain no longer has the option of fighting the Delors programme on narrowly financial grounds, because Mr Saddam has re-written the European agenda. When the European summit meets in Rome in December, it will be looking at the building blocks of a European federation; and a year from now a treaty to that effect will have been signed. Mind you, I'm just guessing.

JOTTER PAD

CROSSWORD

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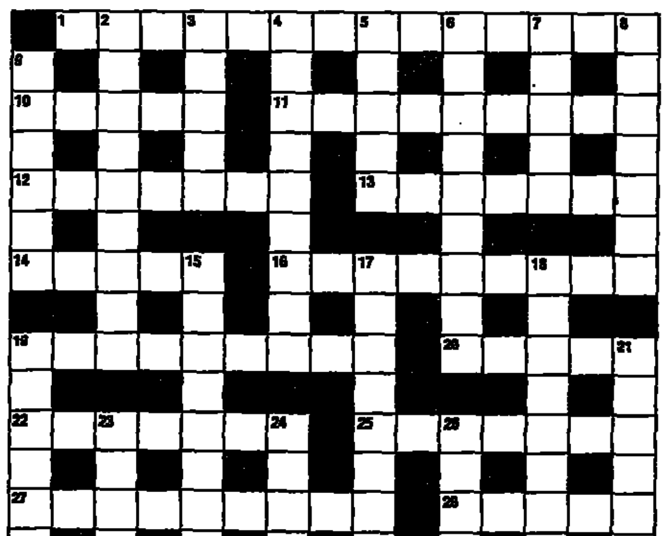

ACROSS

1 One choir starts to transpose musical arrangements (14)
10 Grain coming from a tropic island (5)
11 Most agree it could be an eyesore (9)
12 Strangely, when there's more than one, they become high (4,3)
13 Down-at-heel Italian port (7)
14 Club sounds exclusive (5)
16 Noted soporifics (9)
19 Tip or pour out a delightful mixture (3-6)
20 Support needed when the lease runs out (5)
22 Sailors love to skylark, it's clear (7)
25 Mother left fat on the duck (7)
27 With which one suffers a lack of balance (9)
28 Recess would be pleasant about the end of March (5)
29 This comes of trying to hold one's own (14)

DOWN

2 What MPs do about now (9)
3 The first person an artist goes round and greets (5)
4 He may be flagging in his duties (9)
5 With revision tries to take the examination again (5)
6 Less spirited way to be a Mongol conqueror (9)
7 Frequently expressed as decimal (5)
8 Grieves, they may be drowned (7)
9 Sharp detectives in rising American intelligence organisation (6)
15 Recognition of an acquaintance (9)
17 It's a recurring theme in German opera (9)
18 Examples of incessant change (9)
19 Beginner's course that's far from clear (3-4)
21 Women have many odd ideas! (6)
23 Measures taken to decorate indoors? (5)
24 Rising hack writing for papers (5)
26 Revolutionary type of linen (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 27.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	Northern Bank Ltd	14
Adam & Company	14	Cyprus Popular Bk	14	Nykredit Mortgage Bank	15½
Allied Trust Bank	14	Dunbar Bank PLC	14	Provincial Bank PLC	16
AIB Bank	14	Duncan Lawrie	14	Roxburghe Bank Ltd	15½
● Henry Ansbacher	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Trust Bank	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	● Smith & Williamson Secs.	14
Bank of Baroda	14	First National Bank Plc.	16½	Standard Chartered	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co.	15	TSB	14
Bank Credit & Comm	14	Robert Fraser & Ptnrs.	14½	Unitbank plc	14
Bank of Cyprus	14	Girobank	14	● United Bk of Kuwait	15
Bank of Ireland	14	● Guinness Mahon	14	United Mizrahi Bank	14
Bank of India	14	HFC Bank plc	14	Unity Trust Bank Plc	14
Bank of Scotland	14	● Hambros Bank	14	Western Trust	14
Banque Belge Ltd	14	Hampshire Trust Plc	15½	Westpac Bank Corp	14
Barclays Bank	14	Heritable & Gen Inv Bnk	14	Whiteaway Laidlaw	14
Benchmark Bank	15	● Hill Samuel	§14	Yorkshire Bank	14
Brit Bk of Mid East	14	C. Hoare & Co.	14		
● Brown Shipley	14	Hongkong & Shangh.	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk	14		
Clydesdale Bank	14	Midland Bank	14		
Comm. Bk. of London Plc	14	Mount Banking	14		
Co-operative Bank	*14	Nat Bk. of Kuwait	15		
		NatWestminster	14		

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FINANCIAL TIMES SURVEY

INTERNATIONAL MOBILE COMMUNICATIONS

SECTION III — Monday, October 15, 1990

Beyond today's surge of interest in cellular systems, there is the prospect of an even larger revolution in personal communications as mobile phones become cheaper and small enough to fit easily into people's pockets — and call charges will become more competitive, says **Hugo Dixon**

The world at your fingertips

THE FIRST decade of the cellular communications industry has been a tremendous success. Market demand has outpaced even the most optimistic expectations, companies providing cellular services and manufacturing cellular equipment have seen spectacular increases in their profitability, and users of cell phones have benefited from the ability to make and receive calls when they are on the move.

Nevertheless, the market has remained the preserve of an elite. Even in Scandinavia, which has the highest penetration of cell phones in the world, only 5 per cent of the population owns one. Cell phones are just too expensive to buy and calls from them are too costly for most people to be willing to throw away their ordinary fixed phone and switch to mobile.

A new vision of a personal communications revolution, which will dwarf the current cellular revolution, is now being held before the industry's eyes. Mobile phones will become so small that they can be easily popped in people's pockets and will be as cheap as a small colour television; and call charges will be competitive with what people have to pay to use an ordinary fixed phone.

When these conditions are fulfilled, people will no longer have any need of fixed phones for ordinary voice conversations. Instead of being a niche value-added market, mobile communications will have become the mass market and fixed communications will have moved up market to concentrate on data and video communications.

But can this vision be achieved? How long will it take? And what is the best route to get there?

The answer to the first question is that a mass market personal communication service can almost certainly be achieved. Those who doubt it point to the fact that cellular calls around the world are typically four or more times more expensive than ordinary calls and that there is thus a long way to go before mobile can compete with fixed systems.

However, technology is changing relative costs. The main cost of installing a fixed network is digging up the roads. The main costs of a mobile network are radio base stations and handsets.

There seems little prospect that the cost of digging up roads will decline over the next decade — in fact, since it is essentially a labour-intensive operation, the costs might be expected to rise.

On the other hand, advances in micro-electronics and radio technology should lead to lower costs for mobile communications. As the mass market takes off, economies of scale will drive costs down further.

Moreover, the current price advantage that fixed communications enjoy is deceptive. In most countries, cellular communications has been treated as a luxury service and priced accordingly. For example, Racal-Vodafone of the UK would still be making profits if it cut its prices in half.

On the other hand, most countries have priced their local fixed phone services below cost as part of a social policy to encourage everybody to have a phone.

These discrepancies between price and cost will not be able to withstand the onslaught of competition which is sweeping

Advances in technology should lead to lower costs for mobile communications

through the telecommunications industry. More and more countries are licencing second cellular companies to compete with their national monopolies, and the UK has gone even further by licencing five mobile communications companies. Competition will cut prices and squeeze the monopoly profits.

At the same time, a combination of market forces and government policy is forcing a rebalancing of prices within the fixed network to bring them closer in line with costs. As long-distance and international prices fall, line rental charges will probably rise.

Furthermore, the switch from analogue to digital communications will improve the quality of mobile networks by reducing the number of glitches and increasing capacity.

While these factors point to the long-term advantage of mobile communications, there are many possible paths between the reality of today and the vision of tomorrow.

The UK has taken a pioneering lead by licencing three companies to build Personal Communications Networks, (PCN).

PCNs differ from cellular communications systems in that they operate in a higher frequency band (1.8GHz) and have a shorter range (1km), but otherwise are much the same.

The advantage of the UK experiment is that by introducing competition in a big way, it attempts to harness market forces to drive down prices and expand the market. The PCN technology itself has the advantage that a range of about 1km seems about right.

By being shorter than cellular, it means that radio frequencies can be re-used more often and so more customers packed onto the networks. But it is not so short that base stations have to be put at every street corner.

The danger of the UK experiment is that other countries may not follow with the same technology, meaning that it may not enjoy global economies of scale. The rest of Europe has yet to commit itself to PCN and the US, although interested in the idea, seems likely to choose a different standard.

Another possible path to personal communications is cordless telephony. The UK's experiment with telepoint, which involves putting base stations in public places and allowing people to make phone calls if they are within 100 metres of them, has so far been a disappointment.

But many supporters of the underlying technology argue that the UK should have started with two other applications of cordless telephony and added telepoint only when these were fully established.

The two applications are:

- Cordless switchboards, which would allow people to use pocket phones in the office.
- Cordless streets, where the same switchboards could be put in each street allowing people to dispense with their fixed phones at home.

The advantage of cordless telephony is that it is fairly unsophisticated, meaning the costs of the handsets could be low. However, the very short range — 100 metres — would add to infrastructure costs. In order to cover the same area that one PCN base-station can handle, 100 cordless base stations would be required.

A third possible path to personal communications, being developed by Televerket, the Swedish phone company, would be to turn the fixed network into a mobile one.

The idea is that people would have a smart card — a credit card containing a micro chip — which they could slide through a terminal when the reached a new location, so alerting the network to where they were. They would then be able to make and receive calls as if they were in their own home or office. The fixed network would have to modified, with the introduction of intelligent data bases in order to keep track of where people were.

At a later stage, people would be able to buy small pocket phones which would connect with the fixed network by radio links, so giving them complete mobility.

The advantage of this approach is that there would be a single unified network, meaning that there would be no need for the mobile and fixed networks to duplicate infrastructure investment. The drawback is that it could take a long time to make the full transition from a fixed to a mobile network and the advantages of full mobility would only be available in the final stage.

However, such an approach may be attractive to the world's national telephone companies. As mobile networks come to compete with their fixed networks, a possible counter strategy would be to turn their fixed networks into mobile ones.

ON OTHER PAGES

The shape of things to come: a streamlined handset for the mid-1990s.

- Service-providers apply the brakes.
- Personal communications networks.
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- *Editorial production by Michael Wiltshire.*
- *Illustration, left, by Robin MacFarlan.*

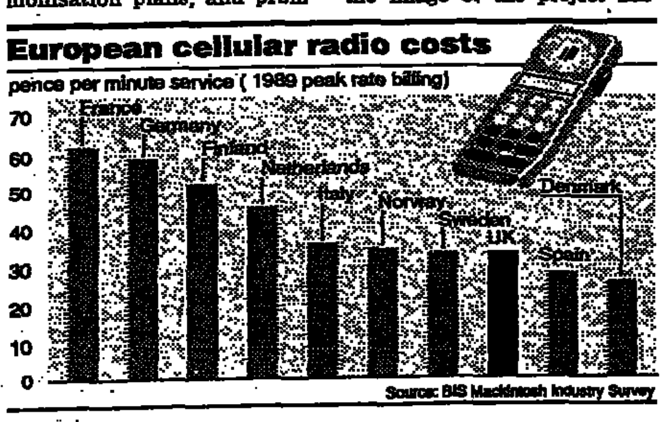
Pan-European cellular radio network

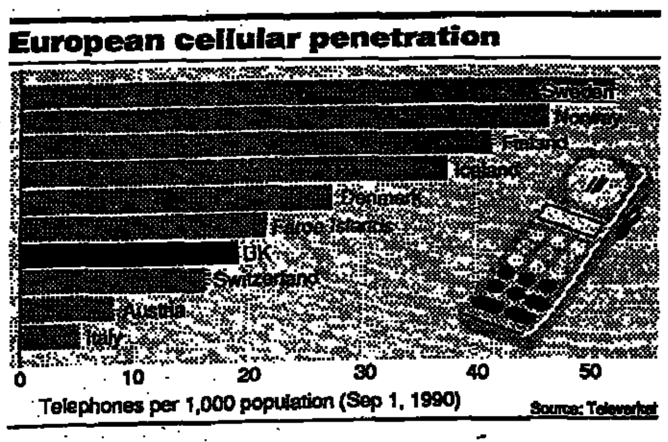
Project tarnished by wranglings

Report by DELLA BRADSHAW

THE PAN-EUROPEAN cellular radio network is due to open in less than a year, enabling consumers to use the same portable phone in Britain, Germany or France.

But whereas the project was once the flagship project in the European Commission's harmonisation plans, and promised to re-establish European communications companies as world class electronics manufacturers, many now believe the image of the project has become tarnished by wranglings between equipment manufacturers and eclipsed by newer, more efficient technologies.





From the point of view of the consumer it looks as if the problems will not hinder the opening of the services on schedule, in 1991. The first countries to introduce the system could be France and West Germany, which already have crowding on their analogue mobile phone networks.

But one of the main aims of the project, to build up a strong European manufacturing base from which to export equipment and expertise, may be slipping away from manufacturers.

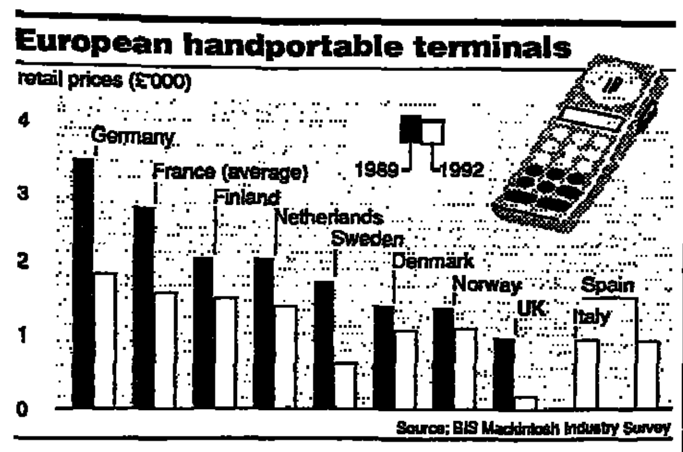
The thinking behind the cellular radio project — commonly referred to as the GSM (Groupe Speciale Mobile) project — was to develop one mobile telephone network for the whole of Europe, run by individual operators in each country.

The economy of scale in producing so much equipment, so the argument went, would mean that the price of infrastructure equipment and handsets would drop, so services would be cheap and attractive to the consumer. That in turn would create more demand and even lower prices.

Because the scheme will be one of the most technically advanced in the world, and the first widespread non-military application of radio signalling using the digital language of computers, it was hoped that the system would find wide-

Continued on page 2

European handportable terminals



Standards dilemma for pan-European project

Continued from page 1: spread acceptance outside Europe, so increasing the market for equipment.

Two target markets were the US and Japan. But it is becoming increasingly clear that they will adopt different standards, says Mr David Hughes, vice president and general manager at Motorola's European Cellular Infrastructure division. "Here will be one standard in Japan, one in Europe and one in the US," says Mr Hughes.

Equipment manufacturers, eager to protect their own commercial interests, have created their own problems. The initial hope of the phone companies was that companies holding patents which were infringed by the new pan-European standard would simply make their intellectual property rights available to other manufacturers, in a rush of goodwill, in order to ensure the timely start-up of the service.

Rival systems

Manufacturers had other ideas. They argued that rival manufacturers should be licensed to use their technology. In particular they pointed to the fear that free licensing would entail giving their technological expertise to Japanese and other east Asian manufacturers on a platter. They could then flood the market with cut-price equipment.

Manufacturers and telephone operating companies alike have now conceded that patent claims will not be waived. Instead, manufacturers are conducting a series of bilateral negotiations, which should result in agreements either to swap patents or to decide commercial terms for using them.

Alcatel of France, which is developing the pan-European technology in a consortium with AEG of Germany and Nokia of Finland, has already agreed terms to swap patents with Motorola, the US electronics group, but only for use in equipment to be used in Europe. Other manufacturers, such as Philips of the Netherlands and Ericsson of Sweden, also have patents which are affected by the new digital specification.

Once the issue of the technical specification is settled there are other business issues to decide. One of the biggest is that of cross-border billing and the means to enable subscribers from, say, the UK, to use the cellular network in Spain. How will the phone network know, for example, that when the Vodafone or Cellnet number of a subscriber is dialled, that the person is actually sitting on a beach on the Costa del Sol, ready and waiting for calls. The problems are compounded because countries such as the UK and Germany have licensed two organisations to provide competing services.

Technically, the GSM system is already being superceded by more advanced technologies. The Personal Communications Network (PCN) concept, developed in the UK, is now being viewed with interest in other European countries.

It is heavily based on the GSM standard, but uses higher frequency radio signals, and so smaller cell sites enabling operators to re-use the radio frequencies more often. As well as increased capacity, PCN technology promises much smaller and cheaper handsets.

In spite of what seems like PCN's enviable technological advantages, particularly in the UK market where the services will be available in 1992 - giving pan-European cellular just a year's advantage – the established cellular network operators already have a good lead.

"GSM's advantages are an existing network infrastructure, fixed standards and the European momentum," says Rob Morland, director of Mackintosh Generics, in Cambridge.

"They already have a subscriber base, so it will be up to the PCN operators to prove that they can take market share away from the established networks."

He also points out that as well as the digital pan-European networks, Cellnet and Vodafone will have established analogue networks to give them extra flexibility – "one option might be to alter the pricing on the analogue networks so that they compete with PCN."

More good news for the GSM makers is the potential for enormous market growth in the new consumer markets of eastern Europe, says Mr Don Burns, corporate vice president and general manager of Motorola's European Cellular Subscriber divison. "Spectrum availability determines the market," he says. Although eastern European countries are now installing analogue systems at lower frequencies, that is because of available radio channels.

UK cellular market shows signs of a slowdown, reports **Neil McCartney**

Service-providers apply the brakes

THE UK cellular telephone market, which has been growing at an accelerating rate virtually ever since services were launched at the start of 1985, has finally this year begun to show signs of a slowdown.

After a hectic phase of expansion in the second half of 1989, when the two network operators, Cellnet and Racal-Vodafone, were in some months adding 40,000 subscribers a month between them, the rate of growth began to fall in the early months of 1990.

By May, the UK had added its one millionth customer, but the monthly growth rate was down to 25,000 a month. In August the two operators managed just 16,000.

While this figure is expected to rise in the autumn - partly because of a national advertising campaign by Cellnet, which with 486,500 subscribers at the start of September, is now lagging a long way behind its rival which had 608,000 - growth rates are unlikely to return to late-1989 levels in the near future.

The slowdown has been caused in part by the worsening state of the UK economy. But a more significant factor has been the decision by the service providers - the companies that sell cellular services to the public on behalf of the network operators, which are not allowed to retail direct themselves - that they could not afford to carry on expanding as fast as they did in the past.

Many of the service-providers, worried by the high levels of churn and bad debt among their customers, and by the size of the connection bonuses paid for each new subscriber brought in by dealers – the thousands of equipment outlets which account for the bulk of the UK's cellular telephone sales – have virtually stopped growing altogether. Nevertheless, it is thought that hardly any of them are making money. A number of smaller companies have already been taken over by their larger competitors and this process of rationalisation looks set to continue.

The problem for the service-providers – which make their money by retaining about 20 per cent of customer revenue, passing the rest on to the network operator – is that, in their desperate race for customers, they pushed up the level of dealer bonuses to levels that were both unwise and unsustainable.

In the second half of 1990 some service providers were paying dealers up to £600 for each new customer they signed up.

This high level of bonuses was a key factor in the sudden acceleration of market growth after the middle of the year. But it also imposed a heavy financial strain on the service providers and had a number of other undesirable side effects.

The size of the bonuses meant that dealers were able to offer cellular telephones at less than cost price, knowing that they would still make money on the deal because of the payments they would get from the service provider for each sale.

In some cases dealers were virtually giving away the cheaper telephones. And in view of the financial incentives being offered, some of the dealers were not too choosy about who they sold them to.

A large number of the customers attracted by these low prices were unaware of the high costs of using cellular telephones and had a rude shock when they received their first quarterly bill for hundreds of pounds.

In many cases they were unwilling or unable to pay. The levels of bad debt and "churn" – the rate at which customers disconnect from the system – rose alarmingly.

In some cases the rate of churn was exacerbated by unscrupulous dealers encouraging customers to transfer from one service provider to another, so that a second connection bonus could be claimed.

These developments undermined the already shaky economics underpinning the high level of bonus payments. While the service-providers themselves receive payments from the network operators for adding new customers, the size of these payments is much smaller - typically between £150 and £200, although a new deal from Cellnet is likely to lead to higher payments.

This means that the service provider makes a loss on each new customer which can be recouped only if the customers stays on the network long enough to rack up a considerable sum in call charges. In some cases, a high-paying service provider would have to keep a customer for several years in order to get its bonus money back.

Once bad debt and churn rise above a certain level, it become impossible to make money.

Moreover, while the service provider has to pay its dealers for more or less every new connection, the network operator pays bonuses only for net growth. So as churn rises, so does the gap between a service provider's incoming and outgoing bonus payments. Racal-Vodafone has proposed a new form of payment package to help to ameliorate this problem, but this has yet to win the backing of Cellnet.

Towards the end of last year some of the service providers began to apply the brakes. Some effectively withdrew from the market while they weeded out the bad payers from their subscriber lists and instituted tighter credit-checking mechanisms. There was also a concerted attempt by members of the Federation of Independent Cellular Retailers – the trade association formed in 1988 to represent the interests of large independent service providers – to reduce the level of bonus payments.

Several companies, including Talkland, Millicom and Martin Dawes, cut their bonus payments by £50 and said they would try to reduce bonuses by a total of £200 by the end of 1990.

Unlike a previous attempt to cut bonuses, which failed within a matter of weeks because some companies would not toe the line, this move seems to have succeeded.

In August, a group of the top companies made the biggest cut yet, reducing bonuses by between £110 and £120, bringing the level down to £250-£350. This means that some service providers have cut bonuses by £250 since last November.

Until recently, these reductions have not been translated into higher equipment prices, partly because manufacturers have responded to the market slowdown by cutting their wholesale prices, and partly because some service providers have been subsidising the price of equipment to their dealers to offset the effect of lower bonus payments.

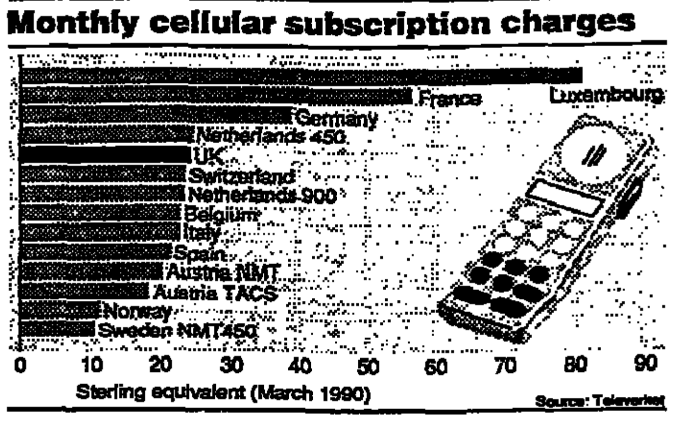
This summer it was still possible to buy a car telephone (with hands-free facility) for as little as £25.

However, there are signs that prices are finally beginning to harden, especially at the lower end of the market, where the lowest-available price for a car telephone is now about £40.

But the service providers say that the effects of the latest bonus reduction have not yet worked through, and that the price of the cheapest car telephone could soon rise to more than £100.

The author is editor of "Mobile Communications," the Financial Times newsletter.

Monthly cellular subscription charges



UK CELLULAR SUBSCRIBERS
Net monthly growth rate, January - August, 1990

Month	Cellnet	Vodafone	Total
January	11,000	24,000	35,000
February	12,500	20,000	32,500
March	17,000	21,500	38,500
April	6,000	18,500	24,500
May	7,000	19,000	26,000
June	7,800	18,200	26,000
July	8,000	14,500	22,500
August	4,400	11,500	15,900
TOTAL	73,700	147,200	220,900

Sources: X.25 Partnership/ Mobile Communications Newsletter

BONUSES PAID

Bonuses paid by UK service providers to dealers per net connection. New bonus figures, after August 1, are shown in brackets:

Talkland	£410 (£300).
Quadrant	£450 (£325).
Millicom	£350 (£250).
Hawthorn Leslie	£445 (£335).

Source: Mobile Communications Newsletter estimates.

Many service-providers have been worried by high levels of bad debt among customers

Personal communications networks

Facility is 'a gadget person's dream'

EVERYBODY knows the frustration of trying to contact someone by telephone only to end-up listening to either the protracted ringing tone or a recorded message on an answering machine. Even in these days of the carphone,the result can often be a shouting competition over a fuzzy radio link or a connection to a carphone in an empty car.

The problem is that the phone is still a fixed object: when you phone a person at work, then most of the time you are actually phoning a specific desk rather than a specific person.

It was to put an end to this kind of problem that personal communications networks (PCNs) were first conceived by the UK government. The idea was that the personal communicator, a truly pocket-sized phone, would provide a phone service to people, rather than places.

PCN's have generally been considered as a way of providing competition to the UK's two existing cellular radio companies in the business mobile phone market. But increasingly they are being seen as a way of providing competition to the two fixed line phone companies, British Telecom and Mercury Communications, in the domestic market.

Microtel, a consortium led by British Aerospace, has even submitted a plan to the government asking for it to be allowed to set up a national phone network using its proposed PCN network as the starting point.

The three licensed PCN operators – Mercury Personal Communications, Microtel and Unitel (a consortium including STC, US West, Thorn EMI, and the Deutsche Bundespost) have two options.

The first is to invest heavily from the outset in the network infrastructure in order to provide a widespread service from the day it begins. Mercury Personal Communications is clearly taking this route, and spending between £200m and £300m on the network infrastructure before its service begins in September 1992. After that, it will invest a further £500m to £700m.

Mercury is predicting it will have 5m customers by the end of the century, out of a predicted total of 10m PCN users.

The second alternative is focus on the two cellular radio operators as the competition, says Rob Morland, director of Mackintosh Generics, the Cambridge-based consultancy.

"It's an easy thing to go for just the business market, where there are good margins," he says.

PCN's technical fact sheet give it several advantages over today's cellular radio, or the future digital radio services, for providing mass communications – "PCN is a gadget person's dream. We can even put a phone in a personal organiser, if there are people who want it," says a spokesman for Mercury Personal Communications.

Although PCNs will transmit data in almost exactly the same way as the pan-European cellular radio service, which should come into service towards the end of 1991, there are several important differences.

PCN phones will operate in a higher frequency band (1.8Ghz) and so have a shorter range (1km). That means that phone needs less power in order to operate, and so can be smaller – the battery takes up much of the space of today's hand-held phones.

Prototype phones area already 15 per cent smaller than today's smallest cellular phone, and that size is expected to be cut even more when the services are in operation.

Because of the shorter distances between the different elements of the network – phone, base station and telephone exchange – the radio frequencies can be used more frequently than with cellular radio, which means the networks have much more capacity. Estimates put the number of PCN calls that can be made on a given set of frequencies as 10 times that of its cellular counterpart, promising little congestion even if the 10m target customer base is achieved.

In trying to capture the domestic market, the PCN companies are well aware that pricing and marketing tactics will prove as decisive as technological wizardry.

Their main problem in targetting the mass market will be the price of handsets and, in particular, the price of the calls – there are many people who have had their fingers burnt by buying cheap carphones only to discover that they were tied in to astronomical call charges. (Unlike the cellular radio companies, however, the PCN companies will be allowed to sell directly to their customers – cutting out the airtime retailers, or middlemen.)

Mercury says its research shows that consumers are prepared to pay slightly more for PCN than they do for today's ordinary fixed phone services. Predictions for the cost of the PCN handset hover at around £200 for the launch of the service next year. Eventually that should fall to below £100, provided there is the volume of manufacture.

This volume will depend as much on whether other European countries adopt the technology as the rate of the roll-out programme in the UK. Adoption of PCN as a European standard looks set to go ahead next year, while countries such as France and Germany are showing an increasing interest in the developing PCN networks of their own.

The companies are also aware that PCN will have to offer many of the services inherent in the newer digital fixed phone services – such as itemised billing, call forwarding and call barring – in order to capture the domestic as well as the corporate imagination.

In addition, the services could provide caller identification, so the receiver can vet whether or not to answer the incoming call.

While the PCN companies are bullish about their prospects of success, others are sceptical about whether the market can support three rival operators. For that reason, proposals by the three operators to collaborate on providing services to rural communities is being carefully scrutinised.

The companies point out that it is economically unviable for them all to provide a service to areas with a low population. Their plan is to devise a way of putting up just one set of infrastructure, which could be used by customers subscribing to any of the services.

Just where this collaboration will end is still a point of discussion.

There could be as many as 10m PCN-users in Britain by the end of the century, says DELLA BRADSHAW

Telepoint disappoints so far

TELEPOINT, the UK-developed technology which has been heralded as the means of providing cheap pocket telephones for the mass market, has failed so far to live up to expectations since the launch of the world's first service in London in August 1989.

The three operators which have services up-and-running – Mercury Callpoint, Ferranti Creditphone and the British Telecom-backed Phonepoint – are thought to have only about 5,000 subscribers between them so far.

This is almost as many as the total number of base stations - the transmitter/receiver points in public places such as streets and railway stations, at which users of digital cordless telephones can access the public telephone network. The installation of these stations is also well behind schedule.

Critics argue that the operators – the fourth of which, the BYPS Communications group, owned by Barclays, Philips and Shell, is due to launch its 'Rabbit' service in November – have effectively missed the boat by failing to market the service properly, and that they will not now be able to establish themselves in the UK's increasingly competitive mobile marketplace.

The critics say that, with handsets costing about £200, and charges of 20 pence to 40 pence a minute for trunk calls at peak times – compared to a top rate of 33 pence a minute for cellular telephones – telepoint is simply too expensive for the market at which it is aimed.

They add that the attraction of the service is seriously undermined by the fact that, for the moment at least, users cannot receive calls at public access points, only make them.

With personal communications network (PCNs) due to launch in perhaps two years time, they conclude, there is no longer a place for telepoint.

The operators accept that telepoint's performance so far has been disappointing, but nevertheless insist that the service is on the point of taking off.

BYPS, for instance, says that telepoint will reach a mass market once about 50,000 base stations are in place and the price of handsets drops below £100. It predicts that there will be 3.5m UK telepoint users in the mid-1990s, generating more than £1bn of business a year.

Other observers are less bullish, but still see a good future for telepoint. Forecasts include 1.7m users by 1995 (MZA), 2.5m by 1998 (BIS Mackintosh), and 3.2m by the year 2000 (Booz-Allen and Hamilton).

The operators claim that many of the unexpected problems that hampered the roll-out of base stations – such as delays in the provision by BT and Mercury of links to the public telephone network – have now been resolved.

They add that the potential subscriber base for the service is being increased by the launch this year of £200 personal base stations, which allow handsets to be used at home like ordinary cordless telephones.

Next year will see the launch of cordless private automatic branch exchanges (PABXs) which will enable the use of cordless handsets in the office.

Arguably, the synergy between the three different applications of CT2 will create a much bigger market for telepoint.

Some operators go so far as to say that the main source of subscribers to telepoint in the next few years will be businesses which have installed cordless extensions to their PABXs and owners of CT2 home base stations. They argue that, while there might be a significant cost barrier to the purchase of a handset for a single application, such as telepoint, this barrier will be much less important if the potential purchaser knows that handset will service two applications or even three.

The operators also point out that the telepoint concept is being adopted in other countries. Last March the PTTs of six European countries – France, West Germany, Spain, Belgium, Finland and Portugal – joined the UK operators in signing a memorandum of understanding which committed them to setting up commercial, trial or experimental CT2 telepoint service by the end of this year.

Some of these trials are already underway and France is scheduled to launch a commercial service, Pointel, by the end of next year.

Non-signatory European countries such as Italy are also testing CT2 telepoint services. Other countries where the concept is being examined include the USA, Canada and Australia.

But the slow growth of the UK's CT2 services is giving some of these countries pause for thought, and is strengthening the position of the supporters of a rival technology, the European Commission-backed Digital European Cordless Telephone (Dect), for which standards are due to be finalised at about the end of 1991.

The Dect camp has been arguing for some time that countries should not opt for CT2, and should instead wait until Dect is ready.

A further problem for the UK operators is equipment compatibility.

Callpoint and Phonepoint both use equipment manufactured by Shaye Communications to a proprietary standard, while Ferranti Creditphone's Zonephone service uses Ferranti kit, which is not compatible. Only BYPS, which is being supplied by GPT, will use equipment conforming to the common air interface (CAI) standard, that will allow any handset to work with any base station.

However, the Department of Trade and Industry has said that all operators must install CAI equipment by the end of 1990 and that roaming between networks must be implemented by mid-1991.

The owners of proprietary handsets will then find themselves at a disadvantage, because they will still be able to use only their own networks, whereas owners of CAI handsets will be able to roam across all four.

Moreover, it is thought that Shaye may have difficulty in developing a dual-standard base station that incorporates both its own proprietary standard and the CAI standard.

Were this to be the case, Callpoint and Phonepoint might have to install proprietary and CAI equipment in parallel, which would be expensive.

The alternative, of installing only CAI base stations and stopping the installation of proprietary equipment, would presumably be acceptable only if the owners of proprietary handsets could be persuaded to switch to CAI, perhaps through the use of subsidies.

Operators are optimistic despite problems says NEIL McCARTNEY

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Hugo Dixon looks at reasons behind a successful regional strategy

Scandinavia sets the pace in Europe

MOBILE communications in Scandinavia have been a great success. The prosperity of the region, the high degree of education, the long distances between cities which have accentuated the need for drivers to be "in contact" when on the road, plus the region's extensive usage of telecommunications in general, have helped to spur on the development of mobile communications.

To this has been added the advantage that Scandinavia boasts a series of phone companies which are among the most innovative in the world – and Ericsson has become one of the leading telecommunication equipment manufacturers.

At the end of 1989, of all European countries, only Sweden and Norway had a penetration of cellular phones that was greater than 4 per cent of the population. Only Finland and Iceland had a penetration greater than 3 per cent, and only Denmark was over 2 per cent.

But does Scandinavia have a strategy for *maintain* its lead into the future? Or will it be overtaken by countries such as the UK, which has launched a series of initiatives to propel itself into the forefront of mobile communications?

Televerket, the Swedish phone company which has led the rest of Scandinavia, has a clear idea of how it would like to see mobile communications developing.

The company currently runs two analogue cellular networks: the old NMT 450 system and the newer NMT 900 system. The NMT 450 system is now virtually saturated with just over 300,000 users. The NMT 900 system, however, is still growing fast, adding between 10,000 and 12,000 customers each month.

Mr Seth Myrby, Televerket's Technical director for radio services, says the company will start introducing the GSM pan-European digital system next autumn. There will be a gradual roll out, with national coverage being achieved after two to three years.

Even so, he expects the NMT 900 system to continue as the companies main cellular service until 1996-97 because there is plenty of capacity left in it. He admits that Televerket is only contemplating introducing digital services even this quickly because of the prospect of competition from Comvik, a private Swedish company which has been awarded a second GSM licence.

"If we were alone on the market, we would not have done it," Mr Myrby says. "We will follow Comvik's development very closely; we will try to be ahead, but not more than necessary."

He expects customers to prefer the NMT 900 system for some time to come because it has full coverage across Scandinavia, whereas the GSM system will only gradually spread across Europe. The Swedish market for traditional mobile systems is in still not saturated, while the market for hand portables in the large cities of Stockholm, Gottenburg and Malmo has only recently begun to take off.

In the mid-1990s, the GSM system will come into its own, according to Mr Myrby. By 1993/94, handsets will have come down in price, European coverage will have increased and the NMT 900 system will start becoming saturated.

Mr Myrby sees no use for the British PCN system in Scandinavia. His vision for the next generation of mobile communications after GSM is of a system which is "very deeply intergrated" with the fixed network – "you would not have separate switches and separate leased lines. You have to have a fixed network that has inherent mobility."

His idea is that Televerket's fixed network will be enhanced by adding intelligent data bases which can automatically keep track of people when they swipe a smart card through terminals which will be placed next to every phone. When the network has been upgraded in this way, people will be given the option of accessing the fixed network via a radio link.

Mr Myrby is uncertain what *technology will be used for the* eventual radio link. Although he thinks the DECT European cordless telephony standard will be useful in an office environment, he doubts whether it will be suitable for personal communications.

The snag with this vision, which is very neat from an engineering perspective, is that it does not take account of competitive pressures. Televerket plans to ration demand by price, but the arrival of competition will put pressure on the high margins now being earned.

Competition has not been effective so far, with Comvik attracting only *18,000* customers for its rival analogue service. But Mr Daniel Johannesson, managing director of Kinnevik, Comvik's parent, says that this is the result of anti-competitive behaviour by Televerket. He complains that Televerket denied Comvik the use of its NMT technology with the result that Comvik had to develop its own proprietory system – and that Televerket did not allocate the radio frequencies evenly, *keeping 800* to themselves and giving only 50 to Comvik.

Competition will be more even with the GSM system because the frequencies have been equally divided. Even so, *there are still disputes between* the companies. Comvik has complained to the government that Televerket is preventing Ericsson from supplying equipment to it and the two companies have been locked in a *dispute about how much Comvik* should pay for connecting to Televerket's network.

Nor can Televerket rely on Comvik being the only competitor. Consortia including Volvo, the vehicle company, and the UK's Racal Telecom, are trying to persuade the Swedish government to release more frequencies to let them compete too.

Such pressures will cut prices and hasten the introduction of the mass market in mobile communications and so may throw off-course Televerket's well laid plans for a gradual evolution to the personal communications network of the future.

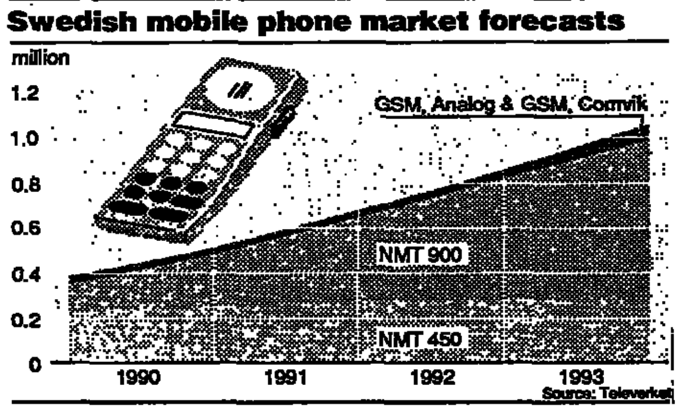
HIGHEST PENETRATIONS: THE TOP FIVE

European countries' cellular-telephones per 1,000 of the population as at September 1, 1990

Country	System	Launch	Subscribers	Penetrations
Sweden	NMT-450	10/81	237,356	52.06
Sweden	Comvik+	8/81	18,700	-
Sweden	NMT-900	12/86	183,373	-
Norway	NMT-450	11/81	141,778	46.27
Norway	NMT-900	12/86	52,585	-
Finland	NMT-450	3/82	129,486	41.48
Finland	NMT-900	12/86	75,824	-
Iceland	NMT-450	7/86	9,371	37.48
Denmark	NMT-450	1/82	53,673	27.22
Denmark	NMT-900	12/86	86,224	-

Sources: Mobile Communications Newsletter; X25 Partnership.

Swedish mobile phone market forecasts



Ericsson AXE exchanges, like the one here, handle more than 50 per cent of the cellular calls made in the UK. The company employs mre than 60,000 people in 80 countries.

Radio links can provide better – and faster – telephone services than the traditional 'copper wire route'

Mobile systems provide a quick fix in eastern Europe

Mobile telephones might not be *expected to come very high on* the shopping lists of east European governments, struggling for economic recovery.

But in Warsaw, Budapest, Prague, Moscow and eastern parts of Berlin, mobile telephones, rather than fixed ones, could satisfy short-term demand for that most precious commodity in any new democracy – communications. And with so many demands on the public purse, a cellular telephone network, paid for and operated by a foreign provider, is too good an opportunity to miss.

In the west, mobile communications arrived some time after the establishment of efficient *fixed networks. This is* why users have come to regard cellular phones as complements to the fixed services.

But in eastern Europe, fixed networks are woefully inadequate and governments face *the prospect of long waits and* enormous investment programmes to bring them up to Western standards.

This situation gives radio communications the chance to leapfrog over the copper wire *and optic fibre installation programmes*, providing businesses and remote locations with telephone links in months, rather than years.

Last year, the Hungarian government licensed US West, an American regional telephone operator, to operate a cellular telephone network as a joint venture with Hungarian Telecommunications, the state-owned operator.

This new system will start in December. *A few months later,* Contel, another US operator was awarded a contract to operate a second network with a consortium of Hungarian companies.

Next came Czechoslovakia. Here, two more US operators, US West and Bell Atlantic have a 49 per cent in a service that should be up and running by the middle of next year.

Eastern areas of Germany, meanwhile, will be served by the same two operators – Deutsche Bundespost Telekom and Mannesman Mobilfunk.

Last, but not least, Poland will announce the successful bidder for its mobile telephone system at the end of this month.

But the biggest prize is still awaiting a winner. The Ministry of Communications of the USSR is accepting bids from western companies with Soviet partners to operate cellular telephone networks throughout the sprawling nation until November 19.

The sheer size of the country means it will be divided up into ten or so regions, each served by its own operator.

In all these countries of eastern Europe, western companies will have large, and sometimes controlling stakes in the networks.

Telecommunications companies *in the east have* neither the expertise nor the money to construct and operate the systems on their own.

As well as operating the networks, western companies may become the first subscribers.

In eastern Germany there has already been an enormous influx of west German capital; and also systems for business people who cannot afford to wait for a telephone line to be installed.

Now that the west German telecommunications manufacturer, Siemens, has extended the west German cellular network into the corridor that runs east into Berlin, they can buy a cellular phone and make do without a fixed one.

Even if users have a normal telephone in eastern Europe, it may not be possible to talk to companies in the west because of the hopelessly inadequate international links. Cellular operators have therefore made sure that they have the right to instal their own infrastructure to carry calls made from the mobile phone right up to where the satellite is required to carry the call overseas.

This is not the case in most cellular telephone networks in the west. In the UK, for example, the two cellular operators, Cellnet and Racal Vodafone, are only allowed to carry calls a few kilometres, and then they are picked up by either British Telecom or Mercury and taken to their final destination – unless, of course, the final destination is another cellular phone, in which case the cellular operator carries the last part of the call.

As well as providing better and quicker services, the cellular operators may be able to provide more extensive ones.

Speaking at the FT's World Mobile Communications Conference last month, Yuri Gulyaev, chairman of the Supreme Soviet's Telecommunication Commission, said that telecoms was outside the reach of half of all the homes in the USSR *because phone cables* have never been laid to serve these regions.

He suggested that it might be more sensible to connect these regions via radio which would be both quicker and *cheaper than copper.*

There could be a problem with this argument, however. The people who live in more remote areas such as Siberia and the central Asian republics are poor, and those least able in the USSR to afford cellular telephones.

Companies such as US West and Contel will be targetting their service at the business-end of the market, so unless the state-owned telephone operators are intending to offer radio communications themselves, and at the same price as the fixed service, the cellular service will remain, in the short term at least, the property of the rich.

But this will not always be the case. If it is cheaper to instal radio links than fixed ones, then this will ultimately be reflected in the final price to the user.

In the UK, this could be brought about by the arrival of three new cellular operators who are building what are known as personal communications networks. With Cellnet and Racal Vodafone, this means there will be a total of five cellular operators, all looking for market share.

But the business-end of the market will be fairly mature by the middle of this decade, and the PCN operators will have to penetrate the residential market, and make their prices competitive with the fixed network if they are to find enough customers.

Personal communications networks are but a distant dream, however, in eastern Europe.

For the foreseeable future, cellular telephone prices in eastern Europe are unlikely to be very different from in the west.

Although buyers can obtain a phone for less than £100 in the UK, prices in the rest of Europe are on average £1,000.

Yuri Gulyaev believes that a Soviet household would be prepared to pay more for a cellular phone than a fixed one that might take years to be delivered. But there must be some question as to whether it can afford to pay for a cellular telephone at today's prices.

Cellular telephones, therefore will provide an essential services for new businesses in Eastern Europe, but they are unlikely to come within the reach of most people any sooner than in western countries.

Mobile systems provide businesses and remote locations with phone links in months, rather than years, says MARK NEWMAN

JAPAN

Plans for sharing technology

Motorola will share its technology with rival makers in Japan, reports ROD PROCTOR

JAPAN'S CELLULAR communications market, now consisting of nearly a half million users, continued to mush*room in 1990 – with the US* electronics giant, Motorola, emerging the chief beneficiary.

As part of the Daini Denden consortium (DDI), Motorola has played a vital role in the industry since the Ministry of *Post and Telecommunications* granted its first license in 1986.

But 1990 saw two significant developments that served to strengthen Motorola's hand.

In May, the Telecommunica*tions Ministry announced its* selection of Motorola's digital speech protocol as the technical standard for the entire industry, turning back the claims of home-owned rivals including NTT and Kyocera.

While current technology relies heavily on analog transmission, digital – which allows the system to handle a far greater number of callers at one time – is universally seen as the way of the future.

The ministry's choice ensures the US maker a heavy role in Japan's growing cellular industry.

Motorola has pledged to share its technology with rival makers in Japan on a non-free licensing basis. Nevertheless, several makers grumbled at the prospect of sharing their lucrative technology with the US company. Also in May, rival mobile communications *consortium, or IDO,* announced it would purchase Motorola equipment for use along the vital Tokyo-Nagova corridor.

Surprisingly enough, IDO has been relying on Motorola *rival and consortium member* NTT for the bulk of its hardware needs.

The IDO contract, said one Motorola official, should be worth upwards of $35m in its first year alone.

NTT was naturally stung by the successes of its American nemisis.

But probably the biggest dis*appointment for the Japanese* giant this year was a report released by the Telecommunications Ministry in March recommending, among other things, that its cellular phone division be spun off from the parent company. Among the plans being considered is one *that would divide the NTT into* 10 regional cellular companies.

Another proposal would create three new entities; one each for mobile phones, pocket pagers and shipboard commu*nications.*

NTT was upstaged again later in the year with the unveiling in August of the IDO handy phone, touted as the industry's smallest, lightest mobile phone. Developed for IDO by Matsushita Communication Industrial Co, the Handy Phone weighs in at about half that of NTT's mainstream mobile phone.

Only six months earlier NTT had announced plans of its own to develop what was to be the world's smallest portable.

NTT is proceeding with its plans, which call for the estab*lishment of a broad-based*, less costly, radio network by early 1992.

Motorola's Japanese subsidiary, Nippon Motorola, meanwhile is continuing work on a replacement for its popular *Microtac mobile phone*. A replacement product should appear on the market in two to three years.

Late in May, the giant Seibu-Saison Group joined th growing list of agent retailers for *cellular equipment. The* group's supermarket operator, Seiyu, has targeted sales of 2,000 units in the first year.

Under the plan, IDO will serve as one of two major suppliers.

THE US

Ardour cools on Wall St

LIKE ALL great love affairs, Wall Street's ardour for the fast-growing US cellular industry has hit a cold patch.

Long before the onset of the Middle East crisis sent the stock markets tumbling, share prices of some of the hottest cellular stocks had been taking a beating as investors began to dwell on a series of substantial hurdles facing the industry *after its spectacular expansion* and consolidation over the past few years.

In particular, investors are concerned about potential competition from rival technologies; greater attention from *state utility regulators;* declines in the value of new subscribers as the service expands into more rural areas; the level of debt taken on to fund growth; and the uncertain impact of a recession on the sector.

Yet despite these concerns there is no doubt that mobile communications are set to continue their extraordinarily rapid expansion in the US.

The number of cellular customers will have grown from 91,000 at the end of 1984, the first year of US operation, to an estimated 5.6m at the end of this year, according to Donaldson, Lufkin & Jenrette, a leading analyst of the industry, which reckons the figure could grow to some 40m by the turn of the century.

A major question is how fast cellular will expand beyond its current predominant use as a business tool and become a more widely used consumer product, helped by advances which have made portable models much smaller.

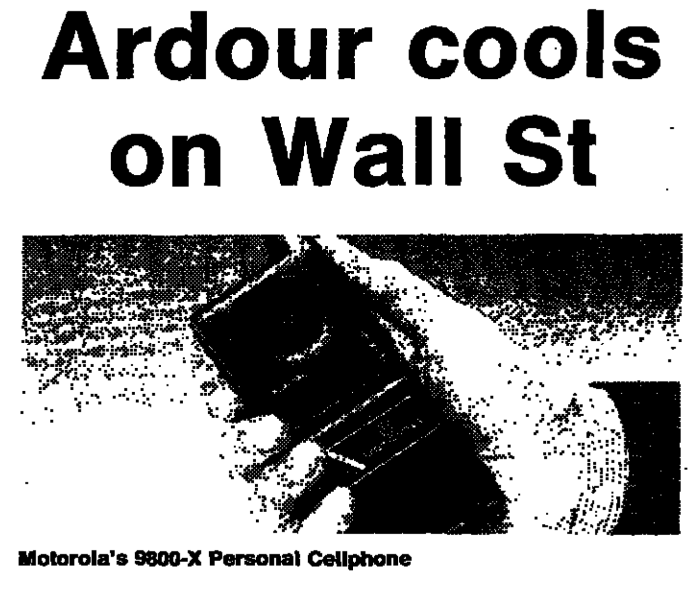
Some analysts suggest cellular phones in the US will be as common in a decade's time as video-cassette recorders are now.

A recent advertisement for BellSouth underlined the potential by showing a cellular phone next to a microwave and a video recorder, with a blurb saying these appliances were once seen as gadgets "few people would ever need and fewer could ever afford."

And a survey conducted for Nynex, the New York telecommunications group, found that one in every four consumers with incomes of over $25,000 a year, or 27m people, would probably buy a cellular phone in the next five years.

However, others in the industry disagree with rosy projections like these, arguing that for the forseeable future cellular will remain a business tool – at least until calling rates drop sharply.

Whatever the case, growth rates have already been restrained in some areas by capacity problems. For example, in Los Angeles customers dialling at rush hour times in appalling traffic conditions have been getting "system not available" lights coming on with irritating frequency.



Motorola's 9800-X Personal Cellphone

To overcome this, new digital equipment is being introduced which will provide roughly three times the capacity of current analog systems, and at substantially lower cost.

The new digital networks, expected to start up in 1993, will also extend the range of services, allowing customers to get into data bases, or send and receive facsimile documents.

The industry is regulated by the Federal Communications Commission which decided at the outset that it would be best to licence two competing systems in each area of operation – one a local telephone company and the other a so-called "non-wireline" company – and the country is divided up into just over 300 metropolitan statistical areas (MSAs) and some 420 rural ones.

As metropolitan areas have matured, the value of franchises have rocketed. McCaw Cellular Communications, the largest US player in terms of the population covered by its licences, paid over $320 per pop when it acquired Lin Broadcasting early this year. The lack of any recent large deals makes up to date figures difficult to compute, but analysts reckon the average for MSAs now is around $200, with some areas worth between $300 and $350.

Rural licences, which the FCC is in the process of allocating, are far less valuable and at present there is not much market in them.

Since the allocation of licences began in the mid-1980s the fragmented industry has consolidated in a burst of takeovers, culminating in by far the biggest yet during the summer, when GTE agreed to a $6.2bn share deal which will give it control of Contel and turn it into the country's second largest cellular operator and the fifth largest owner of conventional local phone systems.

GTE has declared that it intends to be one of two nationwide providers of a cellular service, along with McCaw, which paid some $4bn to boost its stake in Lin Broadcasting, holder of valuable licences in New York and other big cities, from 9.8 per cent to 52 per cent.

McCaw now has the territory it requires to build up a national cellular network, but it needs to sign up subscribers fast to make sense of the large debts it has taken on to fund its growth.

Since much of its capital costs are behind it, every new subscriber brings a healthy increase in McCaw's operating cash flow. Even then, it is likely to be three to five years before the company is turning a profit, and for investors it could be a nerve-wracking wait.

Indeed, Wall Street analysts say one fear having a depressing effect on the market is the possibility that McCaw's debt load could force it to become a seller of properties.

Meanwhile, the creation of duopolies in each market is causing critics to cast a close *eye over pricing for services* and complain that calling rates have fallen remarkably little. The cost of call during peak hours has not varied much in recent years from the current rate of roughly 37 cents to 50 cents a minute.

At the same time, however, in an attempt to woo ordinary consumers, cellular operators have been offering incentives such as free long distance calls at weekends or cheap equipment rentals.

Service operators say they have needed substantial rates to expand their service areas and quality and point out that costs should come down substantially when digital technology is introduced. Yet state public utility commissions, led by California, have already begun initiatives for lower rates.

Some limited forms of competition do exist. For example, in some areas resellers by blocks of numbers from the carriers at wholesale rates and market those numbers on to customers.

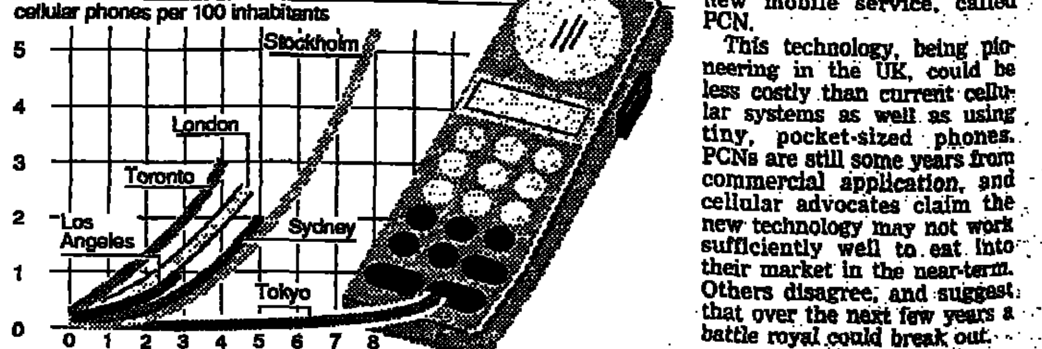
Another form of competition is specialised mobile radio, (SMR), a system similar to cellular used by the trucking and taxi industries. These networks can be bought much more cheaply than cellular franchises and might, with new *technology, be competitive* with cellular systems or at least provide operators with a large customer base, of around 8m subscribers.

One company which has been buying up SMR operators is *Millicom*, an entrepreneurial mobile telecommunications company, which has been granted an experimental licence by the FCC to operate a new mobile service, called PCN.

This technology, being pioneering in the UK, could be less costly than current cellular systems as well as using tiny, pocket-sized phones. PCNs are still some years from commercial application, and cellular advocates claim the new technology may not work sufficiently well to eat into their market in the near-term. Others disagree, and suggest that over the next few years a battle royal could break out.

Martin Dickson

Penetration in cities



هكذا منذ الأزل

Personal numbers and voice mail facilities

Novel services to complement mobile systems

MOST PEOPLE take it for granted that they will not always reach the person they want with one telephone call.

Sometimes callers are told that the person they want to talk to is not in, while, on other occasions, calls simply remain unanswered.

On a personal level, failed calls are not a major problem: mildly frustrating, perhaps, but an inevitable part of the average day. However, on a national level, they are a source of great inefficiency.

The telecommunications consultancy, Ovum, estimates that half of all telephone calls fail to get through to the person they were intended for and argues that if just 5 per cent more calls got through the UK economy would benefit to the tune of several hundred million pounds per year.

The introduction of mobile communications services has gone some way to improving the situation.

Many people can now be reached via a radiopager or a cellular telephone. But new services are being developed which should make it even easier to get through to the right person.

In some ways these new services will complement mobile telephones; in others they will act as a substitute.

Voice messaging is one of these services. At its most basic it is just a form of telephone-answering machine which ensures that wherever a person is they can receive messages.

If someone is not at their telephone, calls are redirected to a message bank where a message can be left. Users access the message bank with a call to the voice messaging service provider and by tapping in a personal identification number. Any messages will then be relayed to the caller.

Often this service is tied in with a radio pager which signals to the person that a message has been left. The more advanced services offer additional features like the ability to alter messages, to forward them to other users and so on.

Perhaps ironically, in the UK this service has proved to be most popular with cellular telephone subscribers – about 10 per cent of whom use the voice messaging service offered by the two network operators, Cellnet and Racal Vodafone.

In the US, on the other hand, most subscribers to voice messaging are on the fixed telephone network. Most US companies now have message banks or subscribe to a voice messaging service; the market was worth over US$900m last year, according to estimates by the US research company, Probe.

A member of the Humberside Ambulance Service using Philips Telecom radio equipment. Microwave systems and base stations form the backbone of the network.

But voice messaging is only a partial solution to the problem of getting a call through. Ideally it would be possible to ensure that telephone calls would get through to a person wherever he or she was.

There are moves to introduce services that would do just this. These are generally grouped under the catch-all title "personal numbering."

As the name suggests, the services are based on the idea that a telephone number should not necessarily refer to a fixed location but could refer, instead, to a person.

In a sense cellular telephones and, when they are available, personal communications networks (PCNs) will offer personal numbers.

So long as users always keep the handset with them they effectively have personal numbers. But this locks users into using the expensive and often unreliable radio networks.

Alternatives could be available relatively soon. The fixed network operators plan to offer personal numbers over their telephone networks and to this end are investing heavily in research and in the introduction of "intelligence," in the form of advanced computers, into the network which should make this possible.

One way such a service might be introduced is for central databases to be set up either by the network operator or an independent service provider.

Personal number calls would be routed to this database which would then choose where to direct them on. Everyone who used the service would specify where they wanted calls to be routed to. During the day, for example, a subscriber might want calls to be directed to an office telephone, failing that they could be directed on to a cellular telephone, and, as a last resort, to the voice message bank.

In the evening, calls could be directed to the subscriber's home address with the message bank as a default option.

Finland introduced such a system at the end of last year. The service allows subscribers to use the same telephone numbers for their mobile telephone and another telecommunications terminal of their choice – a fixed telephone, a radio pager or a second cellular phone. Calls are directed first to the subscribers cellular telephone. If this does not answer, they are redirected to the second terminal, whichever it is.

Although this service was presented to other European telecom operators, none of them decided to develop their own version of it.

Most felt that the Finnish service was by no means a perfect solution to the problem.

The most elegant way to introduce personal numbering would be for the network to know which telephone a user could be contacted on.

This is the approach favoured by the European Telecommunications Standards Institute (Etsi) the body which sets telecommunications standards for Europe and which will, over the next two years, work on standards for personal numbering which will introduce an element of what it calls "personal mobility" to the fixed network.

Ted Bedos, technical director at Racal Vodafone, outlines how he sees an "intelligent" personal numbering system working.

Everybody would be issued with a personal telephone number at birth. They would receive a card containing this number which could be inserted into a slot on all phones.

Telephones would read the card and signal to the telephone network that all calls to that particular user should be directed to that phone.

For example, at home you would plug your card into your home telephone; on your way to work you would plug it card into your mobile telephone and once at work you would register yourself on the office telephone. In each instance the network's computers would follow you from phone to phone.

Although some operators, notably the German telephone administration, the Deutsche Bundespost, have said that they would like to introduce this sort of service, its introduction would be very expensive, not least because the entire base of telephones would have to be altered to accept the personal number cards.

As a result it seems unlikely that an "intelligent" personal numbering service will be available anywhere in Europe or the USA, at least until the second half of the decade.

Justin Rowlatt

EQUIPMENT MANUFACTURERS

Contrasting cultures

Two very different companies claim to be the world leader in supplying infrastructure for cellular systems, reports HUGO DIXON

■ "WE have built up a core competence that is so far in excess of anybody else that we would be very difficult to dislodge."

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■ "We have to be humble, so I quote the Chinese saying – 'No trees grow to heaven.'"

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THESE contrasting quotes – one of extreme self-confidence,the other of humility – reveal the different cultures of the two giants of the mobile communications manufacturing industry.

The first is from Mr George Fisher, chairman of Motorola of the US.

The second is from Mr Lars Ramqvist, president of Sweden's Ericsson.

Both companies have done extremely well in the mobile communications market, earning huge profits as a result. Motorola's general systems division, which is mainly made up of its cellular businesses, had sales of $1.9bn and operating profits of $340m in 1989.

Ericsson does not publish its figures in an easily comprehensible form, but Mr Henrik Rhenman, an analyst at Hagstromer & Qvilberg Fondkommission in Stockholm, says that half of Ericsson's total profits – in other words, SK2.5bn – will be from cellular communications in 1990.

Both companies claim to be the world leader in supplying infrastructure for cellular systems and are able to do so by presenting the data in different ways.

Motorola concentrates on the number of contracts awarded and comes up with the conclusion that it is supplying 31 per cent of the world market. Ericsson focuses on the number of people using its systems and comes up with the conclusion that it has 40 per cent of the market.

The explanation is that Motorola has supplied a large number of small systems while Ericsson has supplied a smaller number of large systems. The only other companies that are significant forces in the world market are American Telephone and Telegraph and Northern Telecom, but their sales are almost totally in North America.

As the cellular communications industry migrates from analogue to digital technology, telecommunications manufacturers which got left behind in the first wave of cellular communications are hoping to make inroads into Ericsson's and Motorola's dominant positions.

Japanese electronics groups which have already had considerable success in producing cellular handsets are now trying to move in to the infrastructure side of the market. However, they have been so far excluded from the European market and their expertise is more in manufacturing hardware than in designing the complicated software needed in cellular systems.

European telecommunications manufacturers, in particular Siemens of Germany and Alcatel of France, also want to get into the market and have had some success in winning orders for the Pan European Digital system.

Their arrival will undoubtedly put pressure on profit margins, but there is so far no sign that they are building up the market presence which would give them the economies of scale to challenge Motorola and Ericsson seriously.

The latter two companies also benefit from the fact that they are much more focused than their rivals and that their top management understand the potential of mobile communications and are prepared to invest whatever is needed to stay ahead.

The key battle is therefore likely to continue to be between Ericsson and Motorola for market leadership. Apart from the very different cultures, the two organisations have opposing strengths and weaknesses.

Motorola's expertise is in radio technology, where it is the world's leading manufacturer of walkie-talkies, and in micro chips. These strengths explain why it has been successful not only in supplying network infrastructure but also in manufacturing handsets.

Its Microtac handset is still the smallest in the world, two years after its launch. And the tremendous efforts it put into improving its poor manufacturing quality in the early 1980s have now paid dividends, allowing it to compete on cost with the Japanese who are the masters of mass production.

Motorola, however, is not strong in switching technology. A few years ago, it decided to stop manufacturing its own switches and buy them from a small US manufacturer.

By contrast, Ericsson's expertise is in switching and, to a lesser extent radio communications. It has built its strong position in the cellular infrastructure market on these skills.

However, it has very little in house expertise in micro chips, relying on Texas Instruments to supply most of its needs.

This explains why Ericsson has made less of an impact in the handset side of the market. However, its decision last year to pool its cellular handset business with that of General Electric of the US is an attempt to reach critical mass in this area.

The joint venture with GE, which Ericsson will own 60 per cent of, should also help increase Ericsson's profile in the US – a market where its still needs to make substantial inroads.

Both Ericsson and Motorola have made a point of going for the global market. This is part of a long tradition at the Swedish company, since its home base could never have been large enough to sustain a substantial telecommunications group.

It has been able to build on its relationships with phone companies across the world to sell them mobile communications equipment. It now hopes to use its expertise in mobile communications as a way of building relationships with phone companies it doesn't already sell to.

Motorola, meanwhile, has taken a very aggressive approach to breaking into new markets, last year harnessing the US governments energies to help it force open Japan's cellular market in what became a bitter trade dispute.

It has also brought a string of anti-dumping actions against the Japanese for selling cellular handsets in the US and Europe at lower prices than they were charging at home.

"We cannot allow other companies to have profit sanctuaries" explains Mr Fisher.

The main advantage that Ericsson has over Motorola is that its systems seem to be much better for large cellular networks than the American company's.

This in turn is a result of Ericsson's expertise in switching. As cellular markets grow, more and more networks will become large, meaning that Motorola could end up being squeezed out of the market.

In the short run, the world market is big enough for both groups. Demand is outstripping supply with both Ericsson and Motorola finding problems fulfilling orders.

In the long run, much will depend on whose vision of the market is correct. Ericsson believes that mobile communications will increasingly become integrated with fixed telecommunications – something which would help the Swedish company, but make life difficult for Motorola, which is not a mainstream Telecommunications manufacturer.

If the mobile market continues to grow, with radio communications and semi-conductors providing the technology drive, Motorola will be able to hold its own.

Rival technical standards for cordless systems

Battle lines are drawn

Despite the introduction of ever more sophisticated office switchboards, telecommunications in the office environment are still fundamentally limited by the fact that telephones are fixed to one spot.

This is all set to change. Telecommunications equipment manufacturers across the world are now developing services that will cut the cord that ties the telephone to a desk and allow users complete freedom of movement within the office. But the manufacturers have come up with rival systems and a battle rages over what technical standards should be used to support these new services.

The potential of business cordless telephone systems is huge. They will allow staff to be contacted wherever they are in the office, ensuring that far fewer calls are missed. They will also make office reorganisation cheaper and more straightforward. Instead of the disruptive and expensive process of rewiring the office or redirecting telephones when people and desks are moved, staff will simply be able to collect their papers, pop their telephone in their pocket and settle into their new office.

For the manufacturers these user benefits are translated into a huge and valuable market – current estimates suggest that in Europe alone cordless office systems could be worth between US$500m and $1bn by 1995.

As one would expect, the manufacturers are eager to get a slice of this cake and are jockeying for position in the market.

But the battle is not just taking place in the marketplace. It is also being fought within the committees which set standards for telecommunications.

Since the development of cordless technologies has, in the main, taken place in Europe it is no surprise that the most bitter fight is taking place within the European Telecommunications Standards Institute (Etsi), the body which decides on and develops the telecommunications technologies for the European Community.

In July, the contenders locked horns. Three telecommunications behemoths – Ericsson of Sweden, Olivetti of Italy and Philips of the Netherlands – attempted to stop the work of Etsi on standards for CT2, the UK-developed second generation cordless telephone technology.

The three manufacturers feared that endorsement of Etsi for CT2 could threaten the success of the digital European cordless telecommunications (Dect) technology that they are working on. On this attempt, their move was unsuccessful, Etsi's governing body rejected it on the grounds that the supporting arguments were not strong enough. However a final decision will have to wait until the end of the year, but by then work will have begun on the CT2 standards and Etsi will be even less prepared to abandon it.

Venture, a compact cordless telephone from Betacom

This is just the latest twist in the long-standing dispute. Etsi decided back in 1988 that it would draw up standards for Dect, based on Ericsson's initial research.

However, while Ericsson had been working on Dect several UK companies including Ferranti, GPT and Orbitel had, with the support of the UK Department of Trade and Industry (DTI), been developing CT2.

They began to press Etsi to develop a formal European standard for their technology but came up against strong opposition from the advocates of Dect who argued that the market would only be able to support one system.

However Etsi, prompted by the increasing support for CT2 in Europe and strong lobbying by the DTI, undertook a review of the situation and decided that there was in fact a market for both systems and thus in March committed itself to developing an interim standard for CT2.

The ferocity of the battle to gain Etsi's seal of approval is explained by the similarities between the two technologies in terms of their applications.

Both support telepoint services as well as cordless office systems and thus compete in exactly the same market.

Dect is the more sophisticated of the two technologies. It is based on a technology developed by Ericsson and uses advanced techniques to maximise the efficiency of its use of the radio spectrum.

As a result, a Dect office system will be able to support more cordless telephones than a CT2 based system and will also allow users to move around more freely while they are talking. But, according to its critics, the sophistication of Dect will mean that it is more expensive than its rival.

CT2, though a simpler and lower capacity system, has the distinct advantage that it is already available. CT2 telephones for use with telepoint systems have been on sale in the UK since last year and the first cordless office systems should be available from UK manufacturers GPT and Orbitel in early 1991.

Dect prototype products, by contrast, are not expected to be available until the end of 1991 or early 1992.

Despite the lack of a formal Dect standard, its supporters have already begun to position themselves in the market. Ericsson, the architect of Dect, has bought out a forerunner of the system, DCT 900, which it is attempting to sell around the world.

Various organisations have agreed to trial the system including the Dutch telecommunications administration and Quantas, the Australian airline, but Ericsson's biggest coup to date has been a deal with the largest US cellular operator, McCaw Cellular. McCaw is more interested in the telepoint application of the technology but the trial will start in November with the installation of a DCT 900 cordless office system at its headquarters.

However GPT, the largest manufacturer of CT2 equipment, has also entered the US market. It has secured US trials of its equipment in conjunction with Bell Atlantic, the US regional telephone operating company, but these will only cover the CT2 telepoint application.

CT2 has gained considerable support from European telephone operators. In March, after much behind-the-scenes activity by the UK Department of Trade and Industry, six European countries, including France and West Germany, signed a Memorandum of Understanding to use CT2 for their planned telepoint systems.

The telepoint and office systems applications are closely linked – the same handset can be used for both – thus GPT argues that there will be a ready market for its office systems when they are launched.

Given that Etsi will almost certainly now develop both standards, only time and the vagaries of the market will tell which technology will win the battle.

Dect seems to have the edge in terms of features but this advantage is matched by the likely lower price of CT2. Perhaps, as Etsi itself argues, there is room for two.

Justin Rowlatt

هكذا صفة الأصل

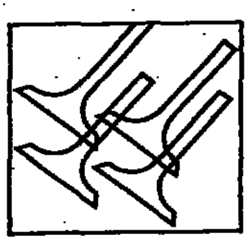
THE NEW SIGN OF CREATIVITY IN AUTOMOTIVE ENGINEERING.

The new Toyota symbol, consisting of three elipses that form a "T" represents our total commitment to the future. One represents our customer, another our commitment to customer satisfaction through our products. And a third, the spirit of creativity that is unique to our products.

Specifications of model shown may vary from local availability.

THE CELICA: OUR VISION FOR THE SHAPE OF THE 1990'S.

Idea: Create a sports coupe that combines our latest high technology with outstanding sporting style.



Result: The Toyota Celica Turbo 4 wheel drive. Distinction is the very essence of this machine. Not only does it look like no other sports coupe, it performs like no other sports coupe.

The 2.0-litre 16-valve turbo charged engine delivers 204 hp. The new Torsen differential constantly feeds power to all wheels in proportion to their traction with micro second precision.

While Toyota's permanent 4 wheel drive commands superb handling and excellent road behavior. But the Celica Turbo 4 wheel drive is just one example of the spirit of creativity and innovation at Toyota. You'll be seeing more of our vision on roads everywhere, wherever you see the new symbol of Toyota.

TOYOTA

Mobile satellite networks

A boon for remote callers

WHEN EDMUND HILLARY and Sherpar Tensing reached the top of Mount Everest 37 years ago, news of their success took several days to reach the outside world. But in a few years from now, they would been able to switch on their mobile satellite telephone and tell us all just as soon as they got their breath back.

With most of the globe now within reach of telecommunications satellites, the technology is being developed to construct mobile telephone networks that can be used in the most remote places. This is helping seafarers, long-distance lorry drivers, international rescue teams at the scene of natural disasters and journalists.

Several international companies believe that this market for remote area communications is big enough to support their presence. But with terrestrial cellular networks steadily expanding into territory that mobile satellite operators once considered their own, there must be some doubt about future prospects for satellite services.

These differ from terrestrial networks in the way their signals are directed. In the satellite system, the radio signal emitted by the phone is bounced into the public network off a geostationary satellite 33,000 km above the ground. A call on a terrestrial cellular network is transmitted no more than a few kilometres to a base station connected to the fixed network.

The largest market for mobile satellite networks has been in the shipping industry. Most large vessels already use the satellite communications services provided by the International Maritime Organisation. Known as Inmarsat, this is a 57-member country co-operative set up in 1972 to serve the telecommunications requirements of cargo and passenger ships.

Equipment is bulky and expensive. It costs $30,000 to equip a ship with full Standard-A Inmarsat voice and data systems. For an oil tanker with a multi-million dollar cargo, this is not exorbitant. But for other kinds of ships it is a significant cost.

Fortunately for them, cheaper and more compact mobile satellite equipment is becoming available. It will soon be possible to buy data only equipment for Inmarsat's new Standard-C system for less than $5,000.

This service also has possible applications in the long-distance haulage business. STC, the UK electronics company, has introduced a personal data communications system which fits into a briefcase for travellers who want to use Inmarsat-C. Known as a Mascot Nomad, the system includes a small dome-shaped antenna and transceiver, an IBM compatible lap top computer and a small printer. It can also be fitted in the cabin of a lorry.

The US-based Qualcomm has had considerable success with its Omnitracs mobile data service among US haulage operators. Capable of covering the whole of the US, it enables a driver to receive all the details of his next job without having to leave his cabin in search of

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a public call box. Companies claim it can save up to two hours a day of the drivers' time.

Satellite technology is also becoming available in the aircraft passenger cabin. The days when the international businessman could relax on a long flight from a meeting could soon end if services are developed to allow him to do the work which would normally have to wait until Monday morning. Instead, he may type reports on a laptop word processor and beam them down to head office with a cordless modem.

This is still some way off, but public telephone services are already available on a limited number of Japanese and US domestic flights. A year ago British Airways fitted two of its aircraft with public telephone services available to credit card holders at $9.50 per minute. The service relies on Inmarsat to beam the call by satellite down to an earth station where British Telecom then transfers it to the fixed telephone network.

It is the satellite part of the call that makes the service so costly. British Airways pays British Telecom $6.80 of the $9.50 that the customer pays, and British Telecom pays a large part of this in turn to Inmarsat. Using satellite is not cheap, and mobile satellite services will not be able to compete on price with cellular systems.

This is why satellite operators must be concerned by the development of cellular services which allow the same phone to be used in more than one country. Until now it has only been possible to use a cellular phone in the country of purchase. The exception is Scandinavia where users have been able to roam between countries. The facility will also be possible in the rest of Europe from next year.

A long-distance lorry driver starting in Sweden will be able to use the same mobile cellular phone during the course of his journey through the UK, France and his final destination in Spain. He will be a subscriber to the pan-European digital cellular system scheduled for launch next July and which allows the user to make calls in all West European countries. Eventually the facility will spread to Eastern Europe, with North Africa and Turkey possibly following at a later date.

In the US, where cellular operators only have regional licences, McCaw Cellular, an operator in Washington, is buying up other regional licences to construct a seamless network which will be able to offer coverage in most states. Other regions, such as the Asean countries in south-east Asia, also be able to introduce roaming agreements so that the same cellular phone can be used anywhere.

All these networks will be cheaper to use than land mobile satellite systems, whose only chances of competing in these markets is if users need communication in remote regions where the terrestrial systems do not provide coverage. Although all the cities and main roads will be covered in the pan-European digital cellular network, it will not be possible to use the phones in more remote areas.

Satellite systems will complete the global communications jigsaw by filling the remaining gaps once fixed and cellular systems are complete. They will be invaluable to many, but unless their price starts to rival those of cellular systems, they will remain a niche market in which there is only room for a few international players.

Motorola announced plans earlier this year for what could be the last word in mobile satellite communications networks. Iridium, as its service has been named, will be a global communications service using handsets no bigger than many of the cellular phones now on the market. But it will cost $2bn to build the network, and at least 700,000 subscribers, each paying $3,500 for the handset and $100 per month airtime will be needed if it is to break even.

Can mobile data networks repeat the success of cellular?

WHEN CELLULAR telephone networks arrived on the scene five years ago, it was easy to work out when and where the mobile phone might come in handy. In the car, on the golf course, or down the garden, the mobile phone allowed the stressed executive to get out of the office but keep in touch in case of emergency.

The same cannot be said of the four public mobile data networks that will be arriving in the UK during the first half of next year. Their arrival is unlikely to cause the same stir as cellular phones, which have conquered the City of London. One of data's problems is the amorphous nature of both the service and its associated equipment. It involves the transmission of characters, rather than spoken words, and the equipment will vary enormously.

Nor is mobile data very new. Racal Vodafone already offers data over its cellular network, as do Band 111 and GEC, the two nationwide trunked radio operators. These will all present ready-made competition to the Cognito, Hutchison, Motorola Storno and Ram, chosen by the Department of Trade and Industry last year to operate the new public mobile data networks. Unlike cellular telephones, snapped up as soon as they went on sale, the mobile data services will need hard selling and creative marketing.

In order to survive, the four operators must persuade cautious companies to incorporate mobile data into their business with the prospect of significant savings and better efficiency.

Mobile data services will be used mostly by companies that currently build their own private mobile data networks or use cellular telephones and transmit information by voice. These are dispatch companies, taxi companies and haulage operators, with large fleets of drivers to instruct. They may also be used by service engineers and field staff who can quickly and efficiently file reports and tap into company data bases.

One such example is Lockheed, that operates London's unloved wheel clamping operations. A Lockheed driver has cellular phones operating on Racal Vodafone airtime, a lap-top computer and a modem to connect the two. When he has clamped a mis-parked car, this equipment enables him immediately to transmit the car's details back to head office. Without the service the clamper would have to shout the information down a telephone line, wasting the time of both the clamper and the person at the other end, and often giving wrong information because of a crackly line or human error.

Besides Lockheed there are other companies that know about mobile data: Racal Vodafone has been promoting cellular for data applications since 1985, targetting the same companies as the mobile data operators, who will have to be a little more innovative if all four are to survive.

Cognito, for example, is projecting itself as the world's first two-way pager, which opens up the possibility of establishing a presence in the UK's 660,000 subscriber-strong paging market. The two-way pager, it is hoped, will be preferable to traditional units in situations where the sender needs confirmation that a message has been received.

Hutchison, Motorola and Ram may be able to draw on their experience as mobile data network operators outside the UK. Motorola set up a company called Ardis with IBM last year offering a nationwide packet radio network in the US. This will link users of portable computers and terminals to host computers, and is targetting users who cannot practically make a modem connection to carry the message over a cellular system.

Hutchison Telecom, Hong Kong's leading public telephone operator, started operating a public mobile data network there in 1989. Its most innovative use has been devised by the Royal Hong Kong Jockey Club which allows punters to place bets from home via a device known as Telebet no bigger than a normal tabletop calculator.

The third operator, Ram, has experience in two countries. In the US, it operates a Mobitex mobile data system built by Ericsson, which has also supplied the Swedish PTT's mobile data network.

Public mobile data networks do not use the same technology as cellular. The main difference is that messages are sent in packets rather than stretched out over an imaginary line. They claim this makes their service cheaper and more reliable. Racal Vodafone disputes this. Although cellular is expensive for carrying voice traffic, it is cheaper for data. In trials for the Lockheed deal, Racal Vodafone found that to record eight separate car clampings, it took four minutes and £1.32 at peak rate in London. Sending the information as data took only 20 seconds, which at the special data tariff comes to 4.5 pence. Even if data sent in packages is cheaper, the low cost of airtime for both services is not going to play a vital role in differentiating between the two.

Band Three Radio is specifically designed for fleet communications between vehicles and their base. The Radiotext system, being used above, allows for rapid transmission of data and reports.

The Trafficmaster system from General Logistics gives drivers up-to-the-minute data on motorway traffic problems.

The developing competition has already claimed its first casualty. Digital Mobile Communications, better known as a paging operator and cellular service provider, handed its mobile data licence back to the DTI even before it had come off the printing press. The DTI has recognised, belatedly perhaps, that the market may be a little overcrowded and decided not to throw the licence back into the market.

DMC had believed that mobile data might be a niche market from which it could derive a modest but respectable turnover. It did not expect the DTI to issue five licences and decided earlier this summer that it was not worth investing the £20m to £50m it had envisaged spending on the network.

The other four will clearly welcome the withdrawal of a competitor. But four operators could still be too many. One problem is that the four operators are using four different proprietary systems, some of which will gain more international acceptance than others. Within Europe, the system most likely to succeed is whichever will be adopted by the standards body, the European Telecommunications Standards Institute (Etsi). It recently decided to define a mobile data standard, for completion in 1993, and this will be based on an existing service.

By 1993, UK services will have been running for two years.

Mark Newman